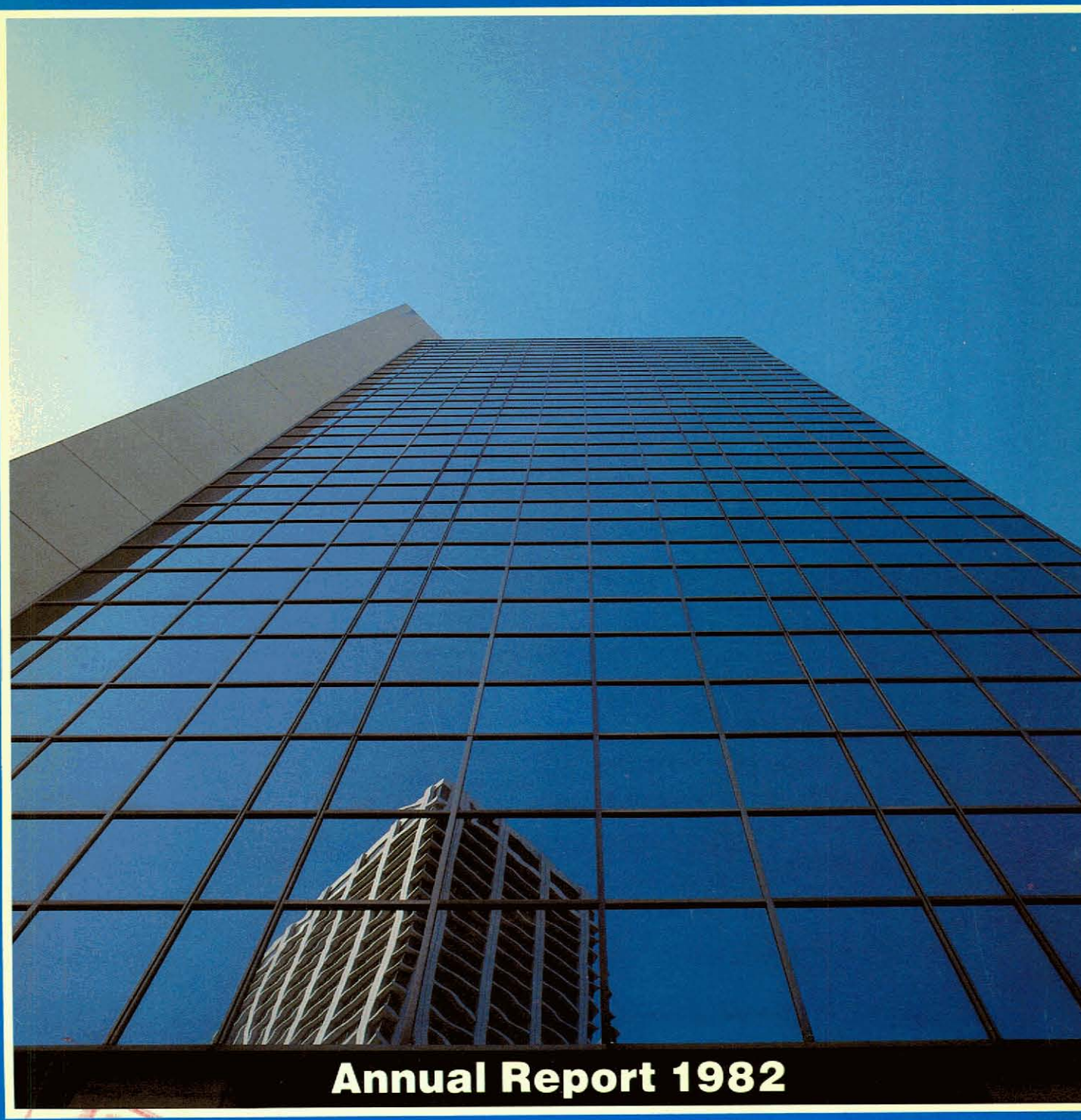
OAKWOOD PETROLEUMS LTD.



Annual Report 1982

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Annual General Meeting of Shareholders

The Annual General Meeting of Shareholders of Oakwood Petroleums Ltd. will be held in the Mayfair Room of The Westin Hotel Calgary in the City of Calgary, Alberta at the hour of 10:00 A.M. Mountain Daylight Saving Time, May 31, 1983. A formal Notice of Meeting of Shareholders together with an Instrument of Proxy and Management Proxy Circular is being mailed to the shareholders concurrently.

CONVERSION TABLE

The petroleum industry in Canada has officially converted to the International System of Units for measuring and reporting. To facilitate conversion we include the following table:

To convert from	To	Multiply by
Thousand cubic metres (10^3m^3)	Million cubic feet (mmcf) gas	0.0355
Cubic metres (m^3)	Barrels (bbls) oil	6.2898
Metres (m)	Feet (well depths)	3.2808
Kilometres (km)	Miles (distance)	0.6214
Hectares (ha)	Acres (land)	2.4710

Comparative Highlights

	1982	1981	1980	1979	1978
Financial (000's $)					
Total Revenues	**$68,105**	$55,017	$38,370	$19,282	$7,067
Cash Flow from Operations	**19,627**	22,292	15,618	8,445	3,334
Per Share	**4.06**	4.30	3.18	1.74	0.69
Net Earnings Applicable to Common Shares Before Deferred Income Taxes	**10,737**	25,699	8,147	3,342	1,823
Per Share	**2.22**	4.95	1.66	.70	.38
Net Earnings (Loss)	**2,157**	14,625	4,361	(2,069)	934
Per Share	**.45**	2.82	.89	(.43)	.20
Operations					
Oil and Natural Gas Liquids					
Production (m^3)	**438,034**	502,320	421,377	235,331	51,353
Daily average (m^3)	**1,200**	1,376	1,151	645	141
Production (barrels)	**2,755,144**	3,159,493	2,650,379	1,480,182	323,000
Daily average (barrels)	**7,548**	8,656	7,241	4,055	885
Natural Gas					
Production (10^3m^3)	**242,113**	174,288	199,782	149,498	86,764
Daily average (10^3m^3)	**663**	478	546	410	238
Production (mmcf)	**8,595**	6,187	7,092	5,307	3,080
Daily average (mmcf)	**23.5**	17.0	19.4	14.5	8.4
Oil and Gas Leases and Permits (Hectares)					
Gross	**3,813,538**	2,715,599	1,207,250	987,649	1,427,072
Net	**424,225**	414,085	174,664	152,552	170,389

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Message to the Shareholders

Dallas E. Hawkins II, Chairman of the Board

To the Shareholders

The management of Oakwood Petroleums Ltd. is pleased to present to you the accompanying Annual Report covering Oakwood's activities and results from operations for the year 1982.

Looking back on 1982, our deep appreciation must be expressed for the consistent effort and dedication demonstrated by our staff. Our Company will continue to be as successful as the people in it and in this regard we must pay appropriate tribute to the loyal, committed and dedicated group of employees and managers who have helped us through 1982 and are an integral part of the results achieved both in 1982 and in the current year to date.

1982 turned out to be the year of prolonged instability for the petroleum and natural gas industry — manifested through high interest rates, a sagging demand for crude oil and natural gas production, and a general economic malaise which seemed to cloud the North American and in fact the world economy. Management of Oakwood Petroleums Ltd. responded to those frustrating conditions by committing itself to seeing Oakwood come through the economic downturn with a minimal disruption, and to be strategically positioned to capitalize on the anticipated economic recovery — one which is now beginning to make itself felt both in Canada and the United States of America. The most critical factor facing us now in 1983 is the question of the price to be received for crude oil and natural gas production. While world prices have fallen somewhat, they do appear to have stabilized at the present time. It is hoped that the federal and provincial governments in Canada will be cognizant of the need for producers to maintain some kind of a reasonable netback from operations if they are to continue in the job of finding oil and moving Canada towards the oft-stated target of energy self-sufficiency. Natural gas pricing is a big question as it relates to Canadian producers at this point and it is certainly of key importance to your Company. Again, it is hoped that the Federal Government will deal responsibly and effectively with the natural gas pricing issue as it relates to exports to the United States in order to maintain existing contractual relationships and also to keep Canada and its natural gas producers well positioned to capitalize on the inevitable demand which will arise later in this decade for Canada's natural gas resources. Your management hopes that actions taken at various government levels will be well founded and will not be made either at the expense of the industry or without proper consultation with industry representatives. Fortunately, it does appear that the government is recognizing finally the integral role the petroleum and natural gas industry does play in Canada in maintaining some kind of reasonable level of economic growth and that the policies to be set will be reached on the basis of responsible thought, reasoning and decision making.

The economic doldrums in which we have had to operate over the past year have not been limited to Canada and the United States. Basically the situation has been a world recessionary situation and our Australian subsidiary — Oakwood International Petroleum N.L., found itself in very depressed conditions in its domestic Australian exploration efforts. Fortunately, the management of our Company there has been very prudent and conservative in terms of its commitments and expenditures and the Company remains soundly financed and well equipped to cover all of its commitments over the foreseeable years on the exploration

concessions in which it is participating. Again, as the economy starts to see signs of revitalization in Australia, certain opportunities are presenting themselves and Oakwood International is well situated to capitalize on some of those opportunities.

During the past year your management has had to devote a significantly larger amount of effort and attention towards stabilizing and streamlining operations in our U.S. subsidiary — carried on in American Oakwood Energy Ltd. through its U.S. subsidiary Oakwood Resources Inc. In May of 1982, Calgary management took over effective day to day management of the U.S. operations and after much effort, it now appears that the U.S. operation can and will continue to be self-sustaining with only a minimal amount of financial assistance from Oakwood Petroleums Ltd.

For Oakwood Petroleums Ltd. 1982 was both a success and a disappointment. As reported to you last year, the early part of the year saw our Grand Forks area production severely curtailed due to lack of demand for that particular type of crude oil production on the part of Canadian refiners. Maximum production levels were not restored until almost mid-year and the result was a most significant $9 million in lost revenue to Oakwood. Fortunately, while we were again faced with some curtailment during the first quarter of 1983, we are now at full production levels and anticipate being able to maintain that throughout the current operating year. On the success side, in spite of the 1982 production curtailments in the Grand Forks area plus ongoing depressed gas marketing opportunities, your Company was able to report operating cash flows for the year 1982 of almost $20 million, only a slight decline from 1981 cash flow of $22 million. Similarly, net earnings for the year amounted to $2.1 million, down from approximately $14.6 million in the prior year. 1983 operating results and cash flow estimates are anticipated to be significantly improved particularly in light of our present crude oil production rates and current interest rates, and in spite of significantly restricted gas production levels owing to the sagging demand for natural gas production in North America — both in Canada and the U.S.

Brian S. Ekstrom, President

Your Company maintains its 12% equity ownership in Alberta Natural Gas Company Limited and in late 1982 that investment provided the foundation for an approximate $19 million equity issue of Series B preferred shares. Also, we are maintaining our 28% ownership position in Conventures Limited, another Canadian oil and gas exploration development company, which company owns an approximate 21% interest in Alberta Natural Gas Company Limited. Your management continues in its conclusion that future earnings and growth prospects for Alberta Natural Gas are most favourable and that in the intermediate term this investment will provide significant returns to Oakwood and to Oakwood shareholders.

During 1982, the Company completed acquisition of the residual minority interest of Quasar Petroleum Ltd., and Quasar became a wholly owned subsidiary of Oakwood in May of last year. All operations and employees of Quasar have now been fully assimilated into the Oakwood organization. While short term operating results from the assets acquired in the Quasar acquisition have been disappointing, the disappointments have been only the result of severely curtailed

Message to the Shareholders

Kenneth W. Germond, Executive Vice-President

gas marketing prospects in Canada, particularly in British Columbia. Your management remains confident that in the longer term the gas reserves acquired through Quasar will prove most beneficial and profitable to your Company's operations.

In light of the troubled economic times of 1982, your Company devoted a growing amount of attention and effort to its internal exploration and development programs rather than aggressively pursuing growth through acquisitions. The results of those efforts are beginning to make themselves felt both in terms of land holdings, established reserves, and indeed in terms of enhanced current operating cash flow levels. These areas of exposure and development are commented on later in this report.

As of this writing, your Company is proceeding to finalize an additional long term fixed rate debt issue which will provide some fresh funding for new ventures and will be another step in restructuring the Company's long term debt position. With economic recovery just in its very preliminary stages, we are intent on keeping Oakwood in a posture where it will be ideally situated to maximize the opportunities which will continue to present themselves to us — primarily in terms of exploration or acquisition opportunities which will provide short term incremental cash flow and profits to the Company. With a view to significantly broadening the Company's operations and asset base over the next year, steps are being taken to expand the Company's Board of Directors as will be seen in the enclosed proxy material.

In summary then, 1982 was a year of contrast. Your management is pleased to report that we have brought Oakwood through a most difficult period with a minimum of disruption and loss. The Company is capable of significant growth, expansion and profitability in the months and year ahead of us. Your Company intends to take advantage of that opportunity.

Yours truly,

Dallas E. Hawkins II
Chairman of the Board
Chief Executive Officer

Brian S. Ekstrom
President

Andy J. Blashyn, Vice-President, Exploration

Northern Alberta

A significant portion of Oakwood's exploratory budget has been directed towards the development of new oil prospects in Northern Alberta. The majority of this activity has been created through the generation of prospects by the Company's exploration staff. This has lead to an increase in our exposure through farmin agreements, participation at Crown land sales and reciprocal opportunities through industry contact.

During 1982, and through the first quarter of 1983, Oakwood participated in the acquisition of approximately 2 092 km of seismic data over prospective areas of Northern Alberta. These data included both detailed programs and longer term regional exploration projects. Detail seismic was conducted to define well locations, proposed for drilling in 1983, at Cadotte, Huile, West Seal, Bistcho and Dixonville. The Company is participating in two large regional projects at Sawridge and Lubicon. Sawridge is a joint venture project initiated and operated by Oakwood covering approximately 1 560 sq. km in which the Company has a $33^{1}/_{3}$% working interest. Initial seismic programs have been completed over wholly owned acreage, option lands and available Crown reserves. Further detailing and drilling is planned for next winter season. This area includes potential for multizone Devonian oil reservoirs and Mississippian gas. At Lubicon, the Company is participating as to a $33^{1}/_{3}$% interest in a second regional project covering approximately 2 080 sq. km. This area is located along the highly active Lubicon-Evi-Golden trend which has yielded several recent oil discoveries in the Lower Devonian.

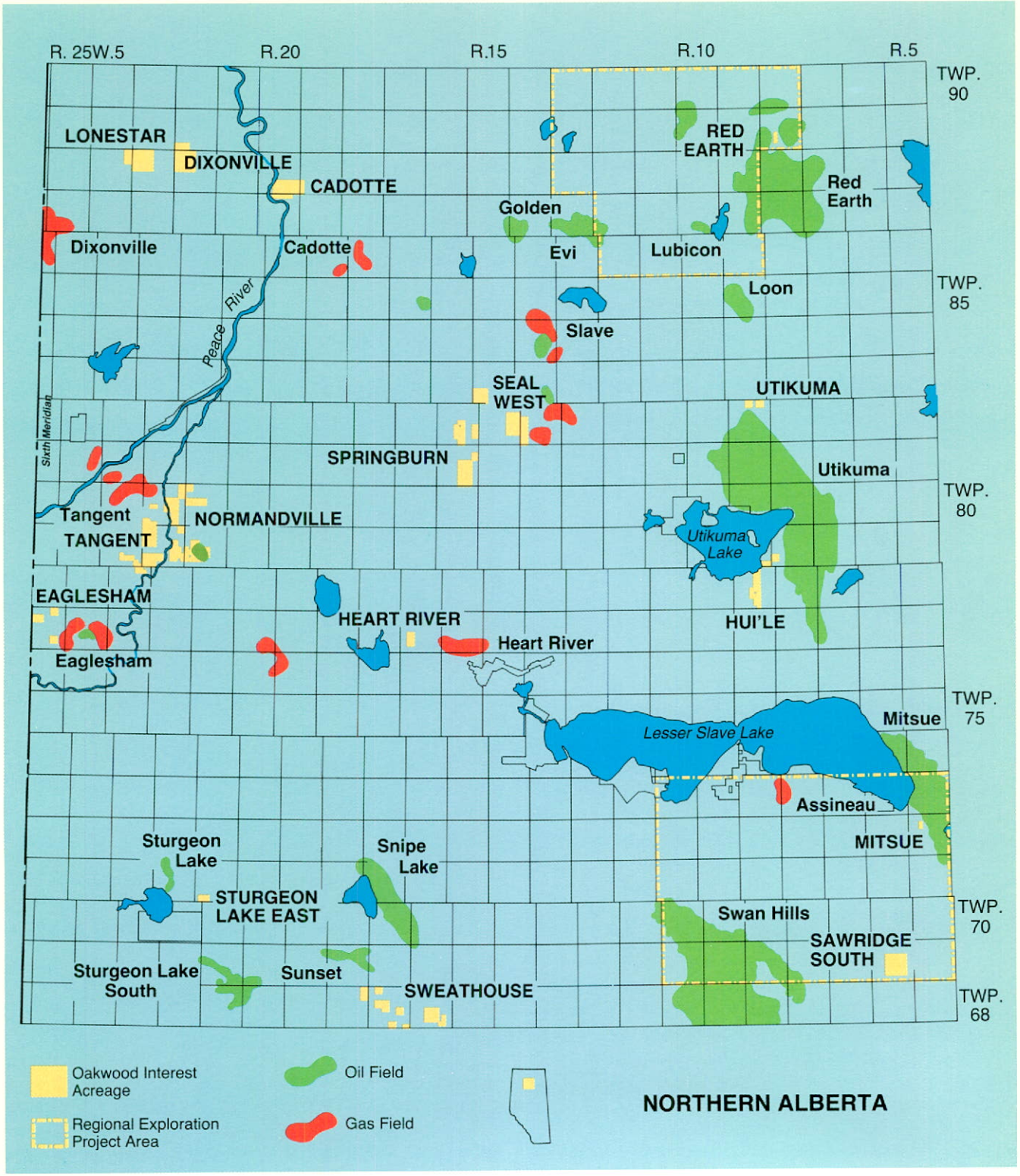
Oakwood operated its initial exploratory drilling venture in this region with a 1,990 metre Precambrian test at Oakwood et al Lonestar 11-29-88-23 W5M. The well was abandoned after encountering a porous wet reef section in the Lower Devonian. Encouraging geological results have warranted additional exploration to be conducted on the acreage. At Bistcho, Oakwood participated at 20% in the purchase of two Crown licenses totalling 5,312 hectares (13,120 acres) and an extensive seismic program. This culminated in the drilling of a Keg River reef test during early 1983. The results of this test are still under review.

Southern Alberta

During 1982, Oakwood continued to maintain an aggressive level of activity in Southern Alberta. The Company participated in the drilling of 67 wells, resulting in 26 oil, 25 gas, 15 abandonments and one other. This drilling activity was complemented by an equally aggressive exploration program conducted over option acreage, Crown and jointly owned leases. State of the art geological/geophysical modelling and interpretive techniques are being emphasized to define Cretaceous stratigraphic reservoirs. It is anticipated that this will contribute to an enhanced exploitation of producing properties and the development of new prospects.

Activity at Tide Lake during 1982 consisted of an extensive drilling program to delineate the oil discovery of 1981. The 24 well program resulted in eight oil and 15 gas wells with only one abandonment. These have lead to the identification of four separate Lower Mannville oil pools to date. Many of these wells also encountered multiple gas zones within the Cretaceous. Anticipated activity for 1983 will include the drilling of a minimum of 17 wells and an additional detail seismic program. A total of 907 gross hectares (2,240 acres) were added to the land inventory through purchases at Crown land sales. Oakwood now has an average working interest of 23.44% in 10,105 hectares (24,960 acres) for a net position of 2,370 hectares (5,850 acres).

Approximately 266 km of seismic coverage were conducted to evaluate leases held under option at Alderson, Lake Newell, Hays, Kitsim and Grand Forks. This data also provided a basis for purchasing a 70% interest in 650 hectares (1,600 acres) south of Grand Forks. Additional detail seismic is planned for early 1983 to optimize well locations for drilling during the summer of 1983.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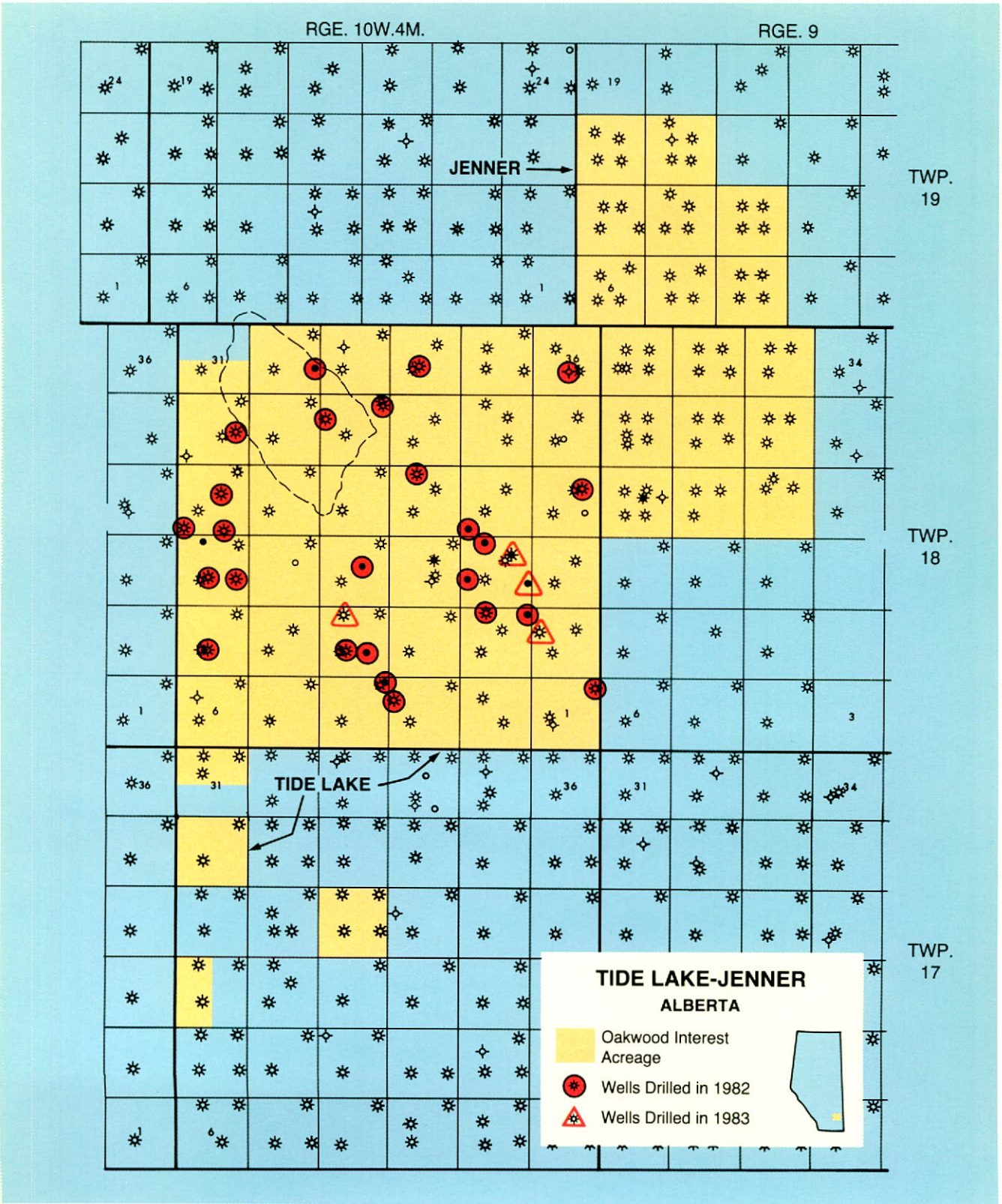
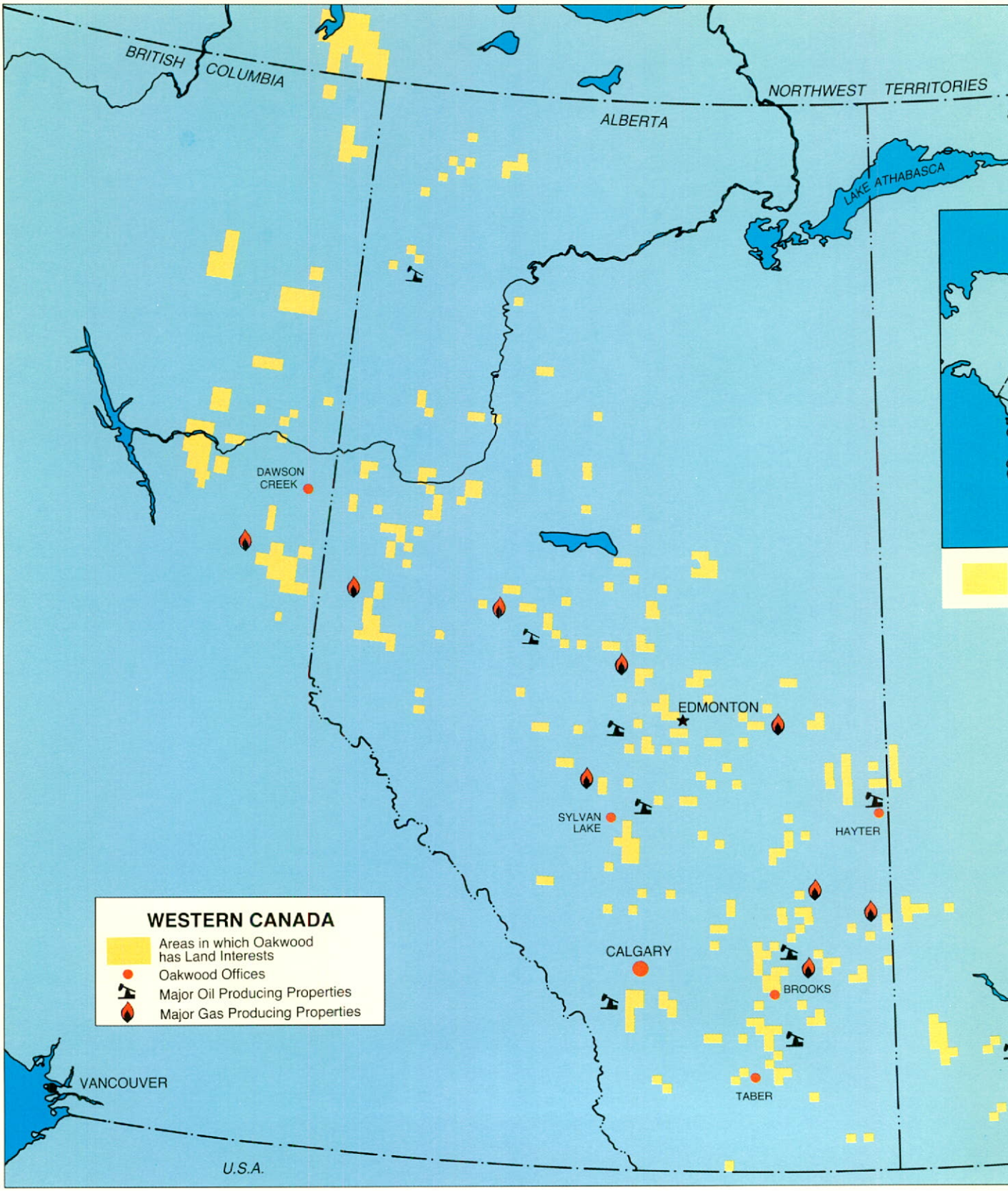
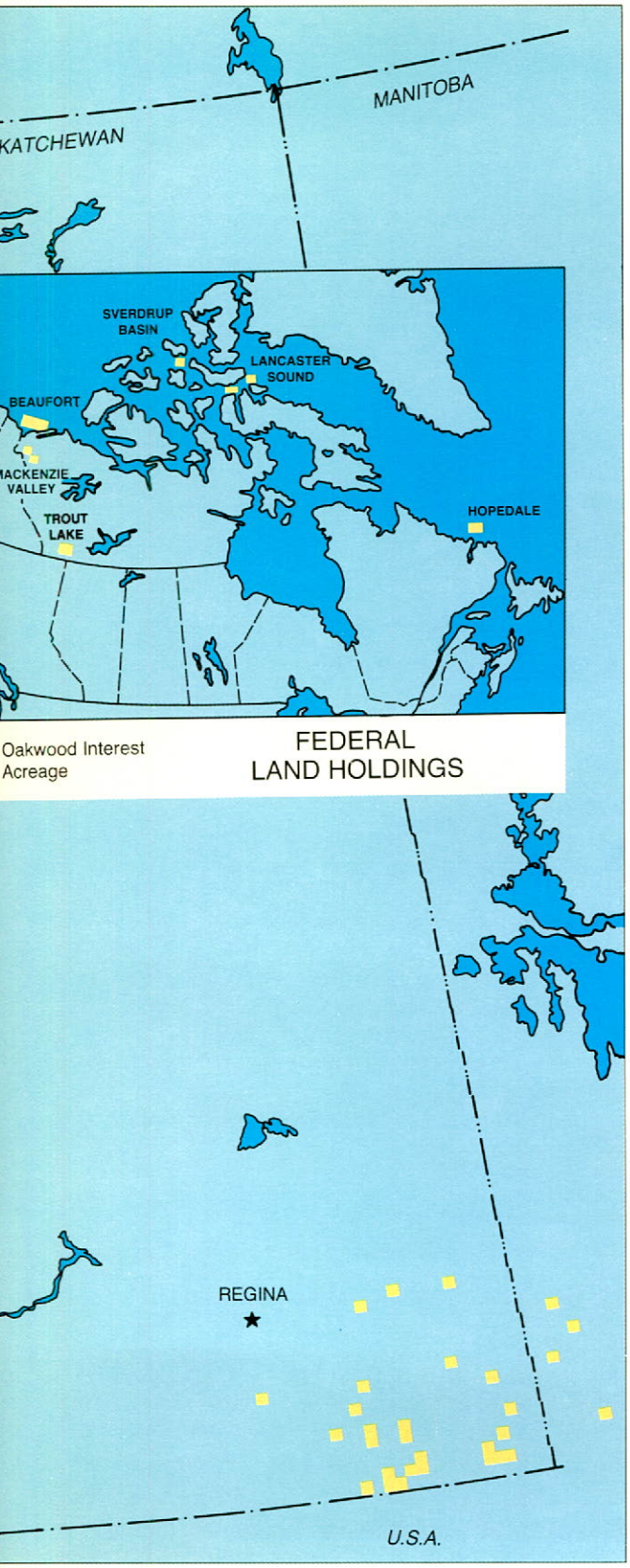
R.20
R.15
R.10
R.5
TWP. 90
TWP. 85
TWP. 80
TWP. 75
TWP. 70
TWP. 68
LONESTAR
DIXONVILLE
CADOTTE
Dixonville
Cadotte
Peace River
Sixth Meridian
Golden
Evi
RED EARTH
Red Earth
Lubicon
Loon
Slave
SEAL WEST
UTIKUMA
Utikuma
Utikuma Lake
SPRINGBURN
Tangent
TANGENT
NORMANDVILLE
EAGLESHAM
Eaglesham
HEART RIVER
Heart River
HUI'LE
Lesser Slave Lake
Mitsue
Assineau
MITSUE
Sturgeon Lake
STURGEON LAKE EAST
Snipe Lake
Swan Hills
SAWRIDGE SOUTH
Sturgeon Lake South
Sunset
SWEATHOUSE
Oakwood Interest Acreage
Regional Exploration Project Area
Oil Field
Gas Field
NORTHERN ALBERTA


RGE. 10W.4M.
RGE. 9
JENNER
TWP. 19
TWP. 18
TIDE LAKE
TWP. 17
TIDE LAKE-JENNER
ALBERTA
Oakwood Interest Acreage
Wells Drilled in 1982
Wells Drilled in 1983


BRITISH COLUMBIA
ALBERTA
NORTHWEST TERRITORIES
LAKE ATHABASCA
DAWSON CREEK
EDMONTON
SYLVAN LAKE
HAYTER
CALGARY
BROOKS
TABER
VANCOUVER
U.S.A.
WESTERN CANADA
Areas in which Oakwood has Land Interests
Oakwood Offices
Major Oil Producing Properties
Major Gas Producing Properties



British Columbia

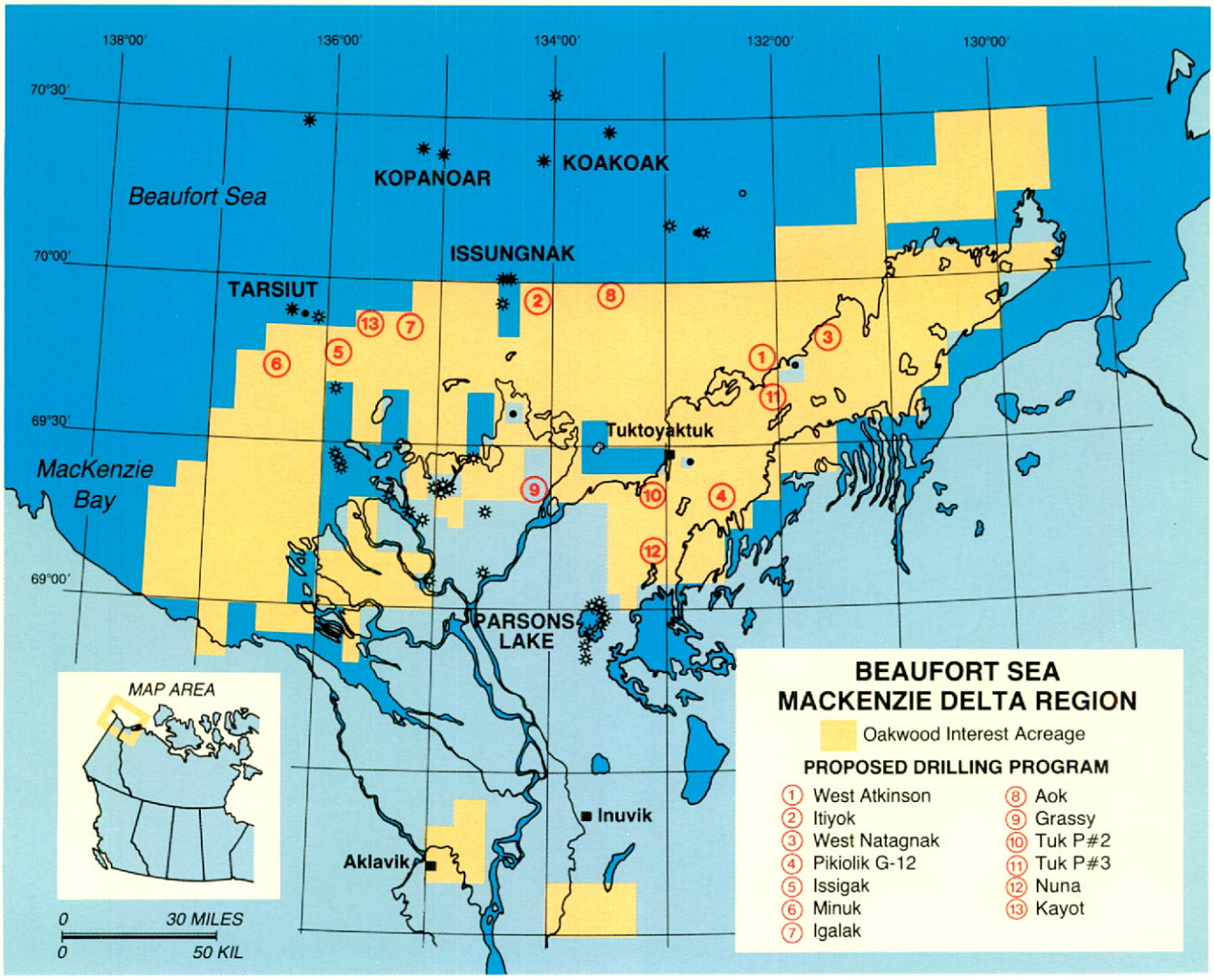
As a result of the current status of gas market deficiency, Oakwood's level of exploratory activity in British Columbia has been limited to participation in obligatory projects only.

The third earning well on the Goldbar acreage, drilled at Quasar et al Carbon d-48-I/93-O-15, was abandoned at 2,295 metres without reaching the objective Triassic beds. This area still remains highly prospective for development of large gas reserves synonymous with those at the Grizzly-Bullmoose-Sukunka gas fields. A 2,920 metre Cambrian test at Suncor et al Bougie b-50-G/94-G-15 tested a cumulative gas flow of approximately 76,000 m^3/d (2.7 million $ft.^3/d$ from the Debolt and Elk Point. The Total et al Helmet C-80-G/94-P-7 location resulted in a suspended gas well in the Jean Marie at a total depth of 1,936 metres.

Canada Frontier Lands

With the enactment of the National Energy Policy the Canada Oil and Gas Land Administration (COGLA) was established to administer all Canadian Federal lands. COGLA was assigned a mandate to negotiate Exploration Agreements (EA) with existing permit holders. The agreements define specific work commitments to be performed during the period of the agreement, usually three to five years. Also included is a land relinquishment schedule whereby 50% of the acreage will be returned to the Crown by the end of the term.

Oakwood presently has representation in seven EA's in addition to the six EA's in the Beaufort Sea-Mackenzie Delta project. The first of these is located in the Trout Lake-Island River area of the Northwest Territories where the Company has participated in a pooling of acreage to form three EA areas. These have a combined total of 395,693 hectares (977,361 acres) with Oakwood's interest being 6.165%, 13.656% and 33.33%. Two of these will be farmed out for work commitments with Oakwood participating in the third as to its 33.33% working interest. Another EA is located south of Norman Wells in the Mackenzie Valley area. The Company has a minor .50% working interest in 258,600 hectares (638,744 acres) and is endeavouring to increase this interest through a farmin agreement. The Sverdrup acreage has been included in the Belcher Channel EA #3 of the Arctic Islands Group, operated by Panarctic Petroleum. This EA includes 896,298 hectares (2,213,855 acres) in which Oakwood has a



.578% interest. The premium structure on this EA is identified as the West Cornwall structure and is located primarily on the Consolidex-Magnorth-Oakwood (CMO) acreage. By prior agreement, Phillips Petroleum holds an option to increase its interest on the CMO lands through the drilling of a well. Should Phillips elect not to drill, then a syndicated well could be drilled by those companies having acreage on the structure. Since approximately 60% of the structure is on the CMO lands, Oakwood would have a 6.75% working interest. A well has been scheduled for the 1983-84 drilling season. At Lancaster Sound, the CMO group has accelerated its efforts to secure approval to drill the Dundas structure. Proposals are being submitted to Inuit and Federal government agencies for consideration at the upcoming series of meetings regarding the development in the Lancaster Sound region. It is anticipated that an affirmative decision will be obtained, by the fall of 1983.

This will allow the CMO group to finalize the EA negotiations which will lead to the drilling of Dundas K-56 location during 1985. Oakwood holds a 12½% working interest in the 932,872 hectares (2,304,194 acres) EA. The seventh EA includes the 305,201 hectare (753,402 acres) Hopedale block located off the East Coast of Labrador. With Chevron electing not to proceed with the drilling of the third earning well, the group are negotiating with Canterra to drill the well during 1983. Oakwood intends to farmout its 2.82% interest, reducing to 1.41% after the drilling of the earning well.

Beaufort Sea-Mackenzie Delta Region

During 1982 Oakwood entered into a farmout agreement to participate with eight other Canadian companies to earn an interest in Esso Resources' Beaufort Sea-Mackenzie Delta acreage. The agreement requires that the consortium will conduct an exploratory program over a five year period which will total approximately $850 million. The program will include the drilling of 13 wells with an option to drill an additional nine and the conduct of 16 seismic crew seasons with auxiliary geological studies. Oakwood's participating interest is to pay 8.58% of the cost of the programs or 10% on lands where Petro-Canada does not have an interest. The Company will earn a 4.29% or 5.0% working interest position respectively. Under certain conditions Oakwood's interest may be altered slightly.

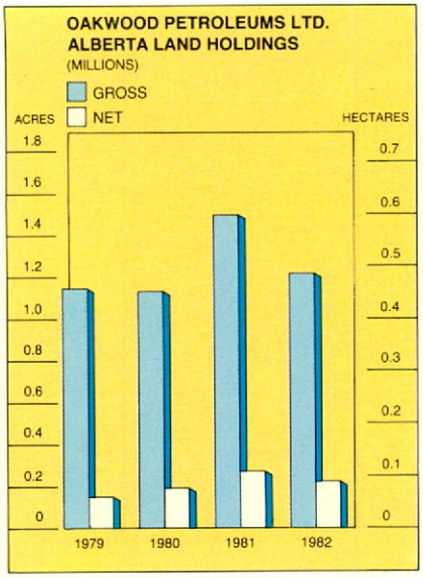
Provisions under the agreement provide that all eligible Canadian Exploration Expenses will qualify for grants available under the Petroleum Incentives Program Act (PIP). Oakwood's Canadian content qualifies the company for the maximum level of PIP payments of 80% under the terms of the Canadian Ownership and Control Determination Act. The area covered by the farmout agreement covers approximately one million hectares onshore and 1.2 million hectares offshore. Negotiations with the Canadian Oil and Gas Land Administration (COGLA) have resulted in the division of the acreage into six EA areas. These will have a term of five years, expiring on June 1, 1987. During this period a phased land relinquishment procedure will take place until 50% of the acreage has been returned to the Crown by year end 1986.

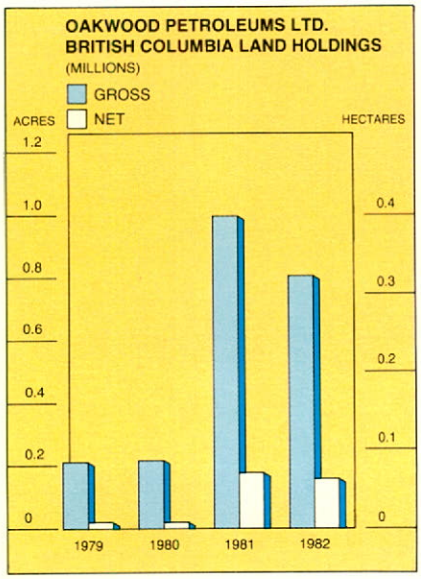
This highly prospective area is characterized by a combination of large and well defined structural and stratigraphic features. Some 51 geological features have been identified with approximately 20 classified as drillable at this time. An additional 40 anomalies have been recognized. Seismic programs are being conducted to further delineate the known anomalies and to evaluate the unexplored regions. Potential recoverable reserves of 400 to 500 million m^3 of oil and 280 billion m^3 of gas have been estimated for the area.

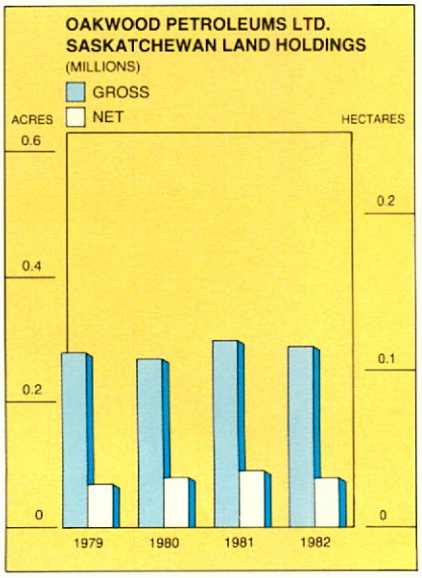
The first well of the program was drilled at the West Atkinson L-17 location. Testing confirmed presence of oil with flows of approximately 170.4 m^3 per day and 700 m^3 per day of gas from a Middle Devonian Carbonate. The final total depth of the well was 2,480 metres. Drilling at the Itiyok I-27 location has been completed to a total depth of 3,955 metres. An extensive testing program is scheduled to evaluate the numerous prospective horizons encountered. The two onshore locations at Pikiolik G-21 and Nataganak O-59 have been drilled to their respective total depths of 1,429 metres and 2,120 metres and abandoned.

Oil and Gas Lease and Permit Holdings (Hectares)

	1982	1981	1980	1979	1978
OAKWOOD COMPANIES LAND HOLDINGS					
Gross	**10,044,055**	6,798,761	4,292,653	3,402,525	3,416,657
Net	**1,098,727**	978,454	601,384	477,820	461,466
OAKWOOD CANADIAN LAND HOLDINGS					
Alberta					
Gross	**493,880**	610,063	458,939	463,639	590,894
Net	**89,734**	108,615	77,709	60,339	63,571
British Columbia					
Gross	**326,692**	417,934	89,213	86,527	90,527
Net	**66,404**	73,249	8,522	9,631	9,682
Saskatchewan					
Gross	**117,075**	120,160	111,256	112,944	116,146
Net	**31,318**	35,180	34,066	28,865	28,649
Manitoba-Ontario					
Gross	**2,388**	2,667	2,667	3,187	3,252
Net	**1,149**	1,437	1,437	1,230	1,230
Canada Federal Lands					
Gross	**2,873,501**	1,564,776	545,174	321,350	626,253
Net	**235,620**	195,603	52,929	52,487	67,256
TOTAL CANADA					
Gross	**3,813,536**	2,715,600	1,207,249	987,647	1,427,072
Net	**424,225**	414,084	174,663	152,552	170,388







Land Comments

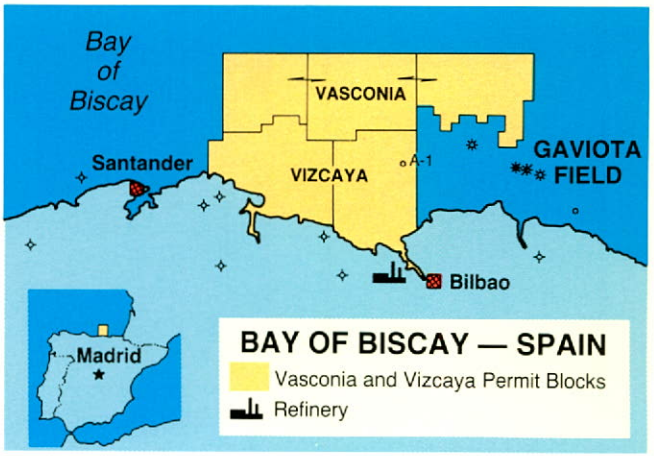
During 1982, Oakwood's land statistics reflected an increase in its acreage position in some areas and a decrease in others. The increase shown in Canada Federal lands was created through the pooling of acreage to form Exploration Agreement areas. This has provided the company with a maximum gross exposure while maintaining a reasonable net position. The contribution of the Beaufort-Mackenzie Delta project has not been significant to this date, as only one earning well was drilled during 1982. The decrease occurring in the Provinces has been effected through conversion of permit acreage to lease acreage in British Columbia and through expiries and relinquishment of less attractive acreage in Alberta, Saskatchewan and Manitoba.

The overall trend for Oakwood and associated companies continues to exhibit strong growth characteristics in its land inventory.

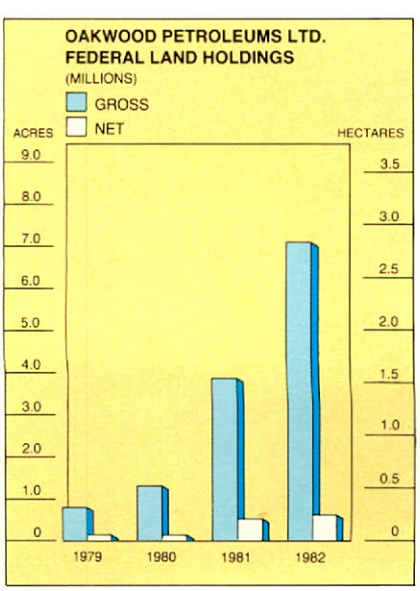
Spain — Bay of Biscay

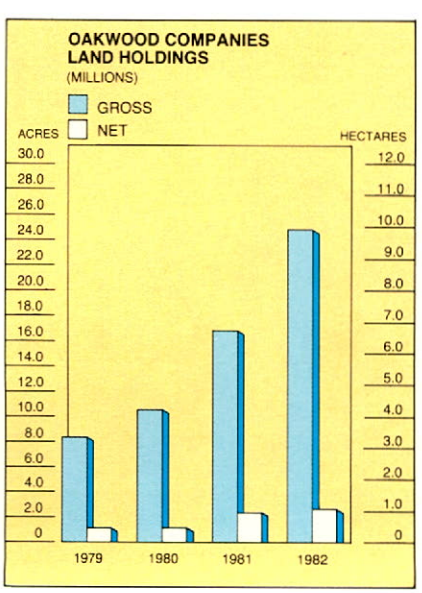
Oakwood has negotiated a farmout agreement with Hadson Netherlands BV and Marinex Petroleum Iberia Inc., whereby the Company will earn a 2% interest in two permits totalling 99,312 hectares by paying 4% of the cost of drilling two exploratory wells. This interest is subject to a back-in provision whereby ENEIPSA (Spanish State Oil Company) may increase its present working interest from 20% to 60% upon attainment of a commercial discovery. Oakwood would then retain a 1% working interest.

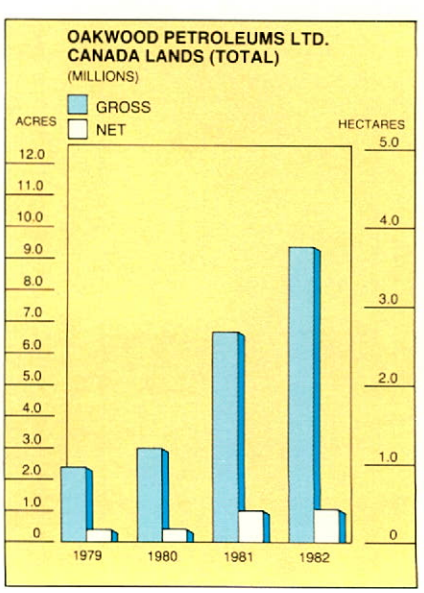
These permits are located less than 24 km west of the new Gaviota gas and condensate field discovered in 1980 by ENEIPSA and partners. The discovery well at Vizcaya B-1 is reported to have accumulated gas flows of 2 million m^3 and 278 m^3 of condensate per day. Six wells have been drilled on the field with five being classified as gas wells.



Drilling operations at the initial exploration location, Vizcaya A-1, have been suspended at 2,033 metres. Operations are expected to resume by June, 1983 with an estimated total depth of 4,575 metres. This test will evaluate a faulted anticlinal structure having an area of 5 100 hectares with 300 to 400 metres of vertical







closure. Two other major structural features have been identified on the permits. The second well, a 3,200 metre test, is scheduled to commence by June, 1984.

The Company has also acquired a 25% working interest in three additional permits adjacent to the north boundary of the Vizcaya permits and the Gaviota field. These Vasconia permits total 127,542 hectares.

Outlook 1983

Although the activity level in the industry continued to show tendencies of decline during 1982, Oakwood maintained a high level of activity and success. The Company has increased its exploratory budget to approximately $23 million for 1983. A substantial portion will be directed to increasing our exposure in the oil prone regions of Northern Alberta. Oakwood's exploratory programs in Southern Alberta have lead to the drilling of two new oil discoveries during early 1983. Extensive follow-up drilling is expected to continue throughout 1983. The drilling program for the Beaufort Sea-Mackenzie Delta region will include the commencement of drilling operations on three locations and pre-drilling operations on two others during late 1983.

Oakwood's exploratory objective will be to develop opportunities in exploration areas which will provide an optimum contribution to the Company's continued growth.

Oakwood International Petroleum NL

During 1982, the international subsidiary of Oakwood Petroleums Ltd. continued to show steady progress in its Australian exploratory efforts. Having maintained a sound financial position, the Company is able to consider new venture opportunities that are becoming more readily available.

By the end of 1982, Oakwood had increased its gross land holdings to approximately 3.9 million hectares in Australia and 2.1 million hectares in New Zealand. Additionally, overriding royalty interests are held in approximately 55 million acres in various properties in Australia.

On permit WA-102P the operator was able to acquire a drillship to drill the Capricornia structure on the southern portion of the permit. Unfortunately, the nature of the sea floor was such that the ship could not be anchored and the project had to be abandoned. Due to the lack of immediate gas markets, the drilling of the gas prone Tantabiddi structure has been deferred. As a consequence, the joint venture partners are proceeding to seek Government approval to reduce the size of the permit and to concentrate on the shallower water prospects which are considered to be oil prone. The Vlaming Head prospect on permit WA-110P was drilled without encountering indications of petroleum. This permit will be relinquished. On permit 246P, the Widara No. 1 well was drilled on an anticlinal structure south of the Moonie oil field. This was abandoned without encountering commercial quantities of petroleum but encouraging geological results warrant additional studies in 1983. Extensive geophysical programs are planned for permits 309P, 246P, 244P, PEL-182, EP-294 and on New Zealand PPL-38026 during 1983. On Block J-2 in the German North Sea, a farmout agreement has been finalized for the drilling of an earning well during 1983.

The wholly owned subsidiary, Oakwood Petroleum Corporation, participated in the drilling of eleven wells in the United States. These resulted in nine gas wells and two abandonments in the Bullhook Unit of Montana. In total, the Company has an interest in 103 gas and oil wells in the United States which yielded revenue exceeding 1.3 million dollars during 1982.

American Oakwood Energy

Oakwood Petroleums Ltd. operates in the United States through its controlled subsidiary, American Oakwood Energy. Oakwood Resources Inc., a wholly owned subsidiary of American Oakwood Energy, participated in the drilling of 14 wells in Kansas, Oklahoma and Texas during 1982. These resulted in four oil, one gas, seven abandonments with two still drilling. Geophysical evaluations were conducted on the Montana overthrust and Utah properties with a drilling location planned for Montana during 1984. The Company presently has an interest in 593,399 gross acres with a net of 204,697 acres in the United States.

D. Nolan Blades, Vice-President, Production and Operations

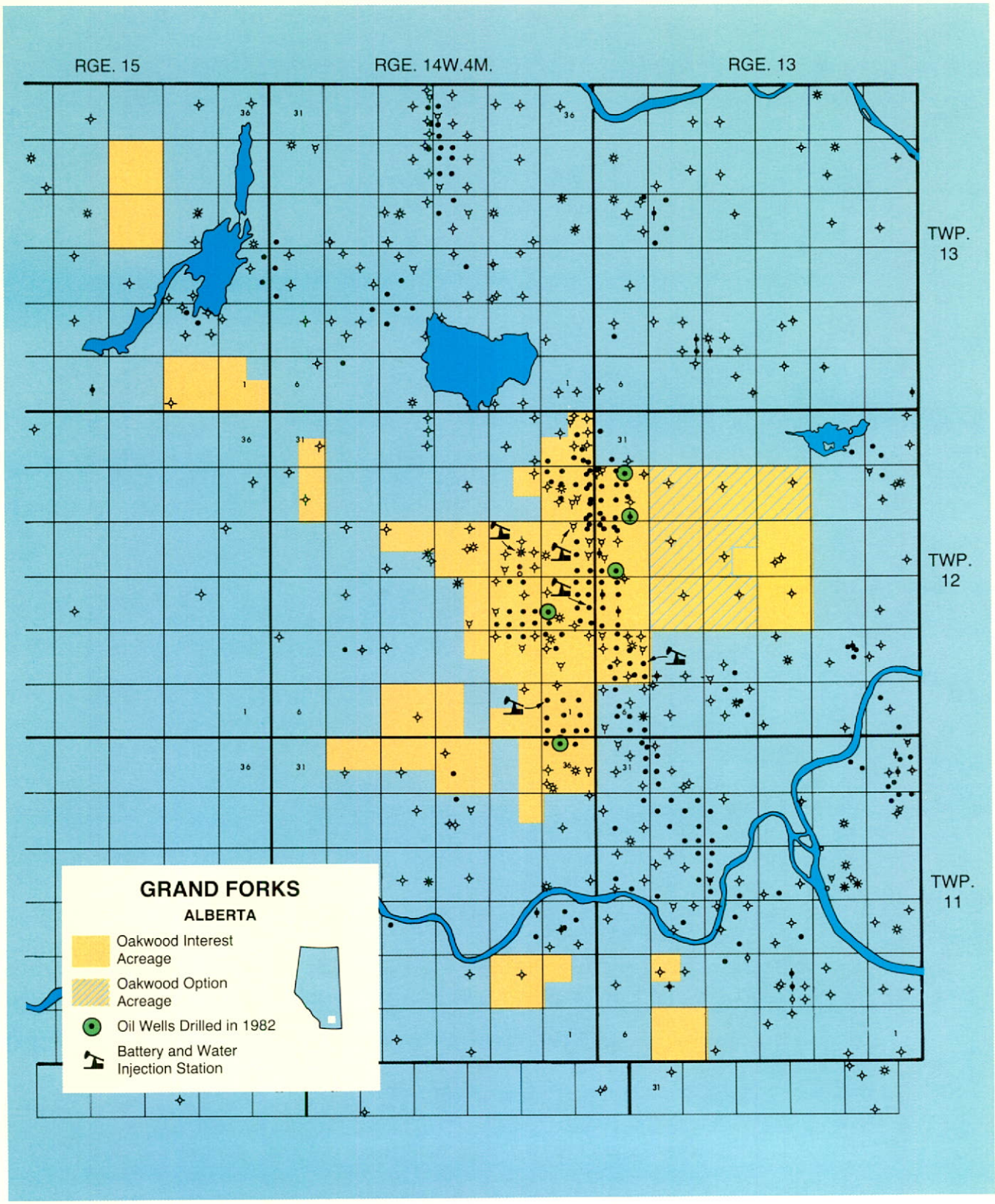
Revenue from the sale of oil and natural gas during 1982 improved by 41% over the previous year, to a record level of $65.7 million. This increase was realized during a year which brought further reductions in natural gas volumes purchased under long term contracts and an extended period of cutbacks for heavy crude oil producers in Southeastern Alberta. The improvement in revenues resulted primarily from the additional cash flow associated with the Quasar Petroleum Ltd. purchase in late 1981, and the increases in oil and natural gas prices which occurred during the year under the Provincial and Federal Energy Pricing and Taxation Agreements.

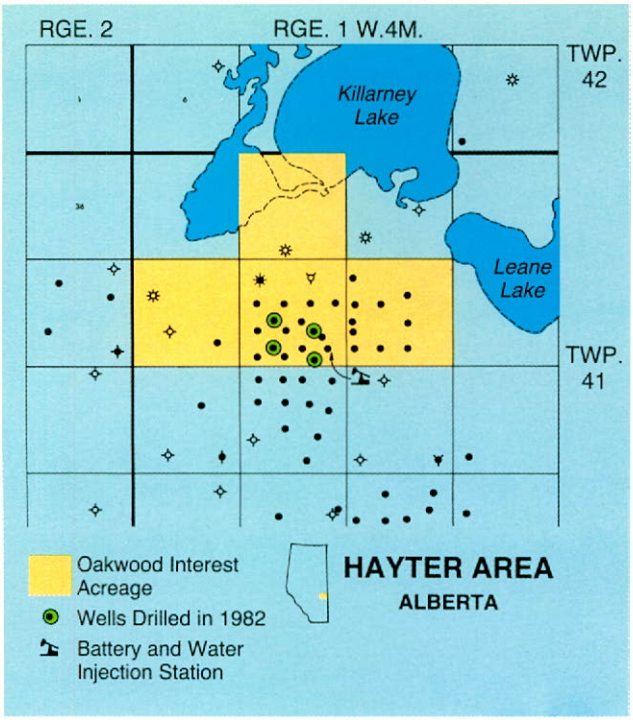
Canadian natural gas production averaged 629 10^3m^3 per day (22.3 million cubic feet per day) during 1982. This represents a significant increase over last year's production rate of 447 10^3m^3 per day (17.0 million cubic feet per day). The majority of the increased production can be attributed to the Quasar properties which accounted for 25% of the total natural gas production. Improved production rates were also achieved in the Jenner area through the contracting and tie-in of the deep gas reserves discovered in 1980 and 1981, and in the Stanmore area where early production commenced to a contract dedicated to exports through the prebuilt section of the Alaska Gas Pipeline.

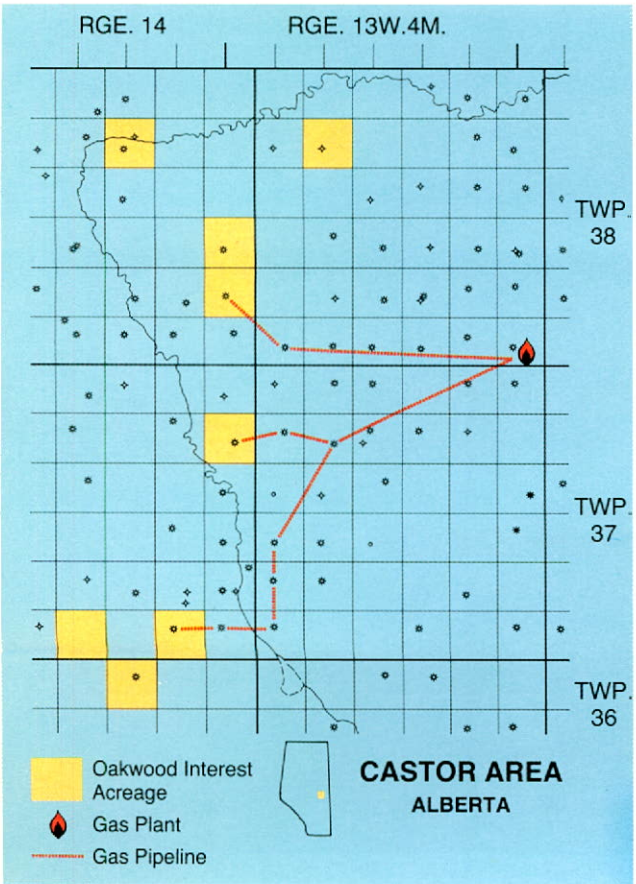
The ability to fully market contracted volumes of natural gas was further eroded during the year as sales to the United States continued to decline due to a combination of a weak economy, consumer resistance to higher priced natural gas, and unusually mild winter weather. Similar economic conditions are expected to prevail during the next two years with no major improvement anticipated for gas sales under these contracts. During 1982, the National Energy Board approved applications for the export of large volumes of Canadian natural gas to the United States markets; however, it is not expected that producers will realize a significant improvement in gas sales under these contracts until the mid-1980's. Sales of natural gas from British Columbia to the United States were particularly depressed in 1982. This, coupled with the long delay in the replacement of the gas line from the Grizzly Valley area to the Pine River plant, frustrated the ability of your Company to take full advantage of the large gas potential of these properties.

The 1982 Canadian crude oil production rate averaged 1192 m^3 per day (7500 barrels per day), a 13% decrease from the previous year. Although the volume of crude oil produced during the year decreased, productive capability increased to the extent that an average of 1456 m^3 of oil per day (9160 barrels per day) was produced in the last quarter of the year. The restriction on production was the direct result of the low market demand for heavy crude oil produced in Southeastern Alberta. During the first six months of the year production from this area was cut back by an average of 39%, reflecting a slow economy and the resulting low demand for heavy crude products in the Canadian market. The market potential for this crude oil improved during the year, with the approval of additional exports to the United States. Approximately 65% of all heavy crude oil produced in Canada was exported to the United States last year and it is expected that 80% of this crude oil will be exported in 1983. Because of the heavy dependence of heavy crude production on export markets, your Company will be taking a more active role in crude oil marketing.

Oakwood participated in the drilling of 72 wells in Canada during 1982. A 75% success rate resulted in 27 oil wells and 27 gas wells. Activity was concentrated in the Tide Lake area of Southeastern Alberta, where new oil and gas discoveries provided for significant reserves additions. These drilling successes will result in a continuing development program in the next year. In the Grand Forks properties, five oil wells were drilled and completed during the year. These wells provided additional productivity and increased the amount of NORP (New Oil Reference Price) crude oil being produced from this area. Development drilling in the West Pembina area resulted in three new Cardium oil wells which qualify for NORP. Shallow gas deliverability

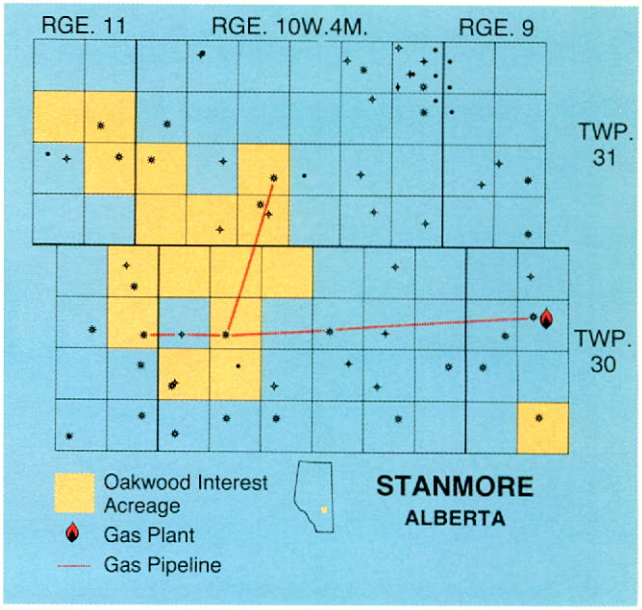

RGE. 15
RGE. 14W.4M.
RGE. 13
TWP. 13
TWP. 12
TWP. 11
GRAND FORKS
ALBERTA
Oakwood Interest Acreage
Oakwood Option Acreage
Oil Wells Drilled in 1982
Battery and Water Injection Station





was maintained in the Jenner area through the drilling, completion and tie-in of eight wells. Eighteen wells were drilled under the Alberta Development Drilling Incentive Supplement Program at a greatly reduced cost.

Varying interests in four sections of land in the Hayter area of Alberta were purchased effective July 31, 1982. The purchase included a 20% working interest in 19 producing oil wells completed in Sparky and Dina Formation heavy crude oil reservoirs and an interest in two shut-in Viking gas wells. Through the acquisition Oakwood became the operator of the properties. Four infill wells were drilled in the Dina reservoir this year,



each with initial production rates in excess of 16 m^3 per day (100 barrels per day). Total production from the area is currently averaging 95 m^3 per day (600 barrels per day).

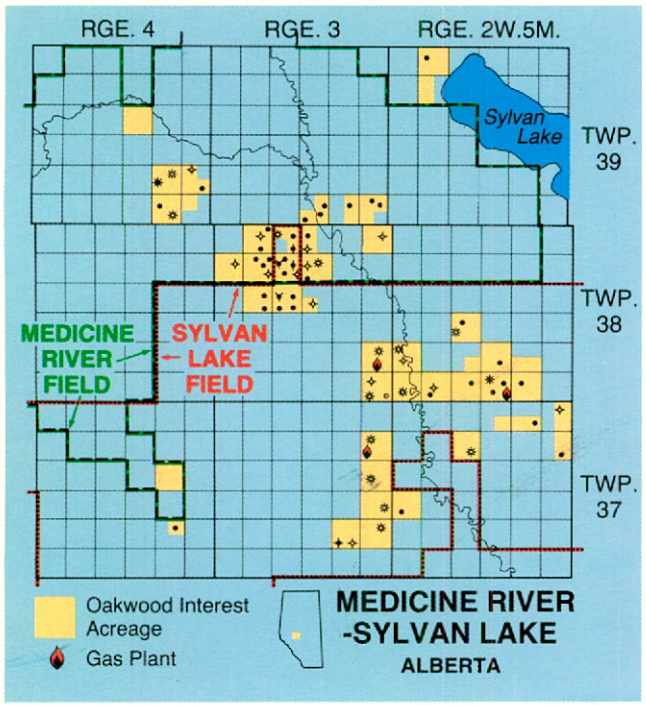
Additonal infill drilling in both reservoirs and the implementation of a waterflood scheme in the Dina reservoir will be carried out next year. Your Company has an option to purchase additional interests in the properties in 1983.

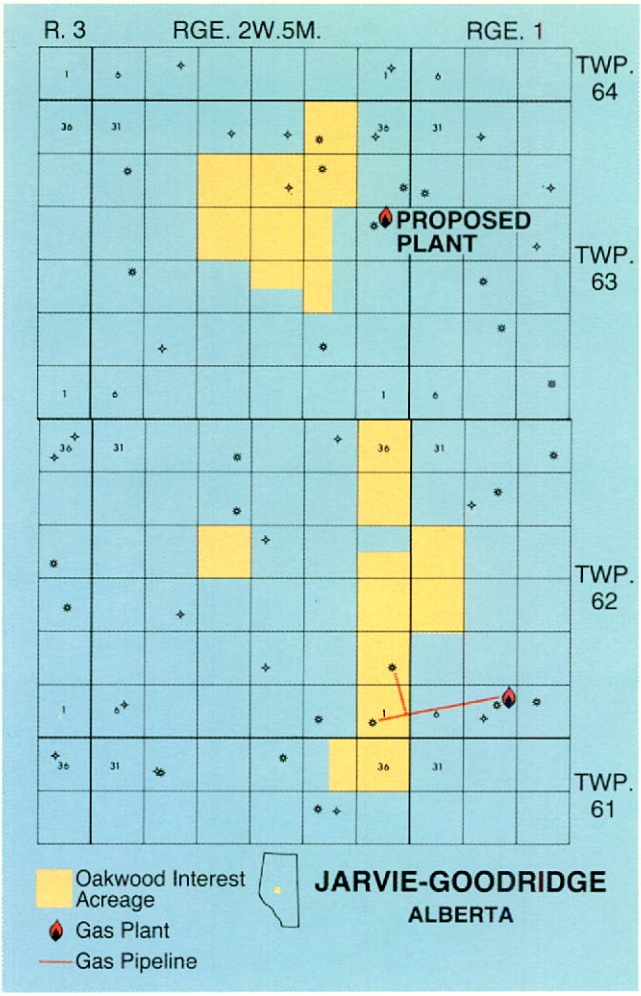
A substantial amount of this year's activity was directed to developing deliverability, and to the construction of new facilities and gathering systems to provide for the marketing of natural gas under gas purchase contracts with Pan-Alberta Gas Ltd., which will be supplying markets through the prebuilt section of the Alaska gas pipeline system. Production under these contracts commenced with the tie-in of wells to existing plants in the Stanmore and Castor areas. In addition, Oakwood

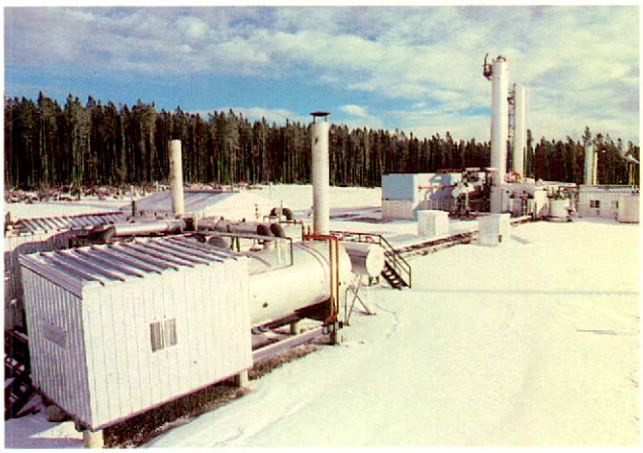
participated in the construction of new plant facilities in the Goodridge Lake, Baxter Lake and Beauvallon areas and planning was undertaken for facilities in the Jarvie and Medicine River areas.

The Oakwood portion of the contract rates under the Pan-Alberta contracts currently on production is 75 10^3m^3 per day (2.7 million cubic feet per day). The Company has an additional 56 10^3m^3 per day (2 million cubic feet per day) of contract volume awaiting the construction of facilities or tie-in to pipeline systems.

Unit negotiations for three separate oil pools in which Oakwood has working interests were undertaken. In the Medicine River area, the drilling of the well located in 14-1-39-3 W5M encountered oil zones in both the Pekisko and Ostracod zones, each of which is in the process of being unitized with the intent of initiating enhanced recovery schemes. A Unit being formed in the Retlaw Mannville V Pool includes the implementation of a carbon dioxide enhanced recovery project.

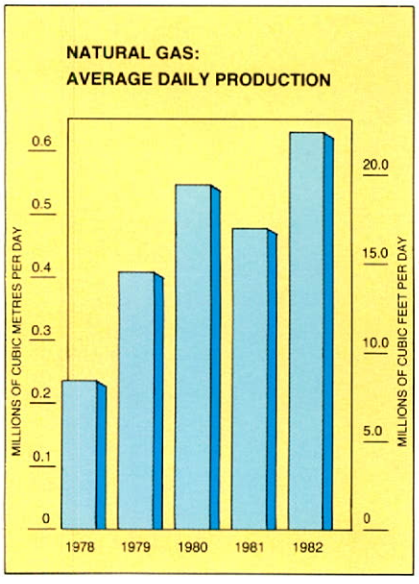






OAKWOOD PETROLEUMS LTD.
CANADIAN OIL AND GAS RESERVES

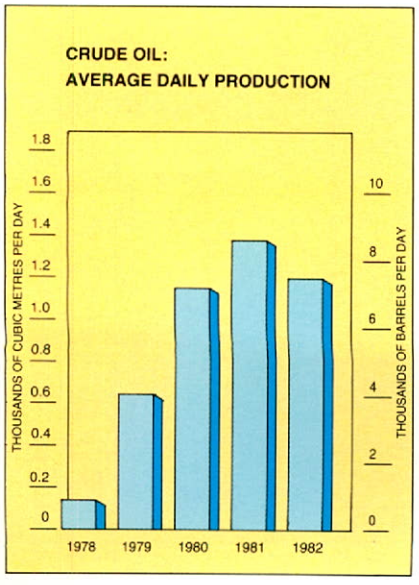
	Crude Oil and NGL		Natural Gas	
	Thousand Cubic Metres	Thousand Barrels	Millions Cubic Metres	Billions Cubic Feet
BEFORE ROYALTIES				
Proved	6,084	38,266	9,079	322
Probable	113	710	3,311	118
Total	6,197	38,976	12,390	440
AFTER ROYALTIES				
Proved	4,427	27,844	7,561	268
Probable	93	584	2,764	98
Total	4,520	28,428	10,325	366

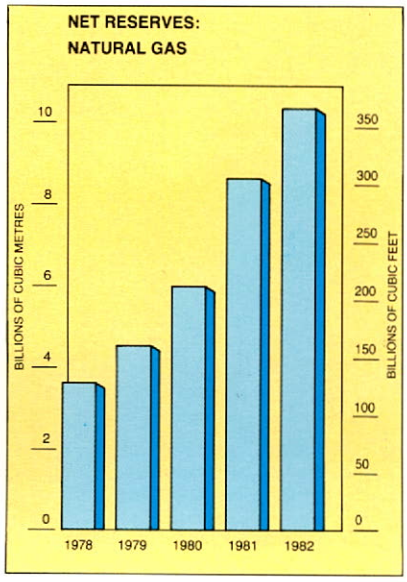


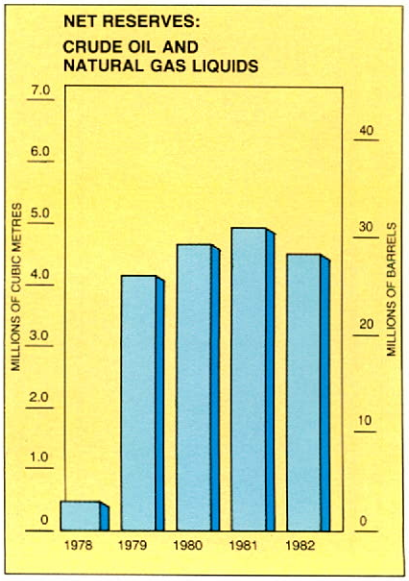
CANADIAN WELLS DRILLED

1982

Development	Gross	Net
Oil	18	7.5
Gas	15	2.4
Dry	12	8.4
Total	45	18.3
Exploration		
Oil	9	2.2
Gas	12	2.6
Dry	6	3.1
Total	27	7.9







A. Norman Boyse, Vice-President, Gas Marketing and Special Projects

Natural Gas Marketing

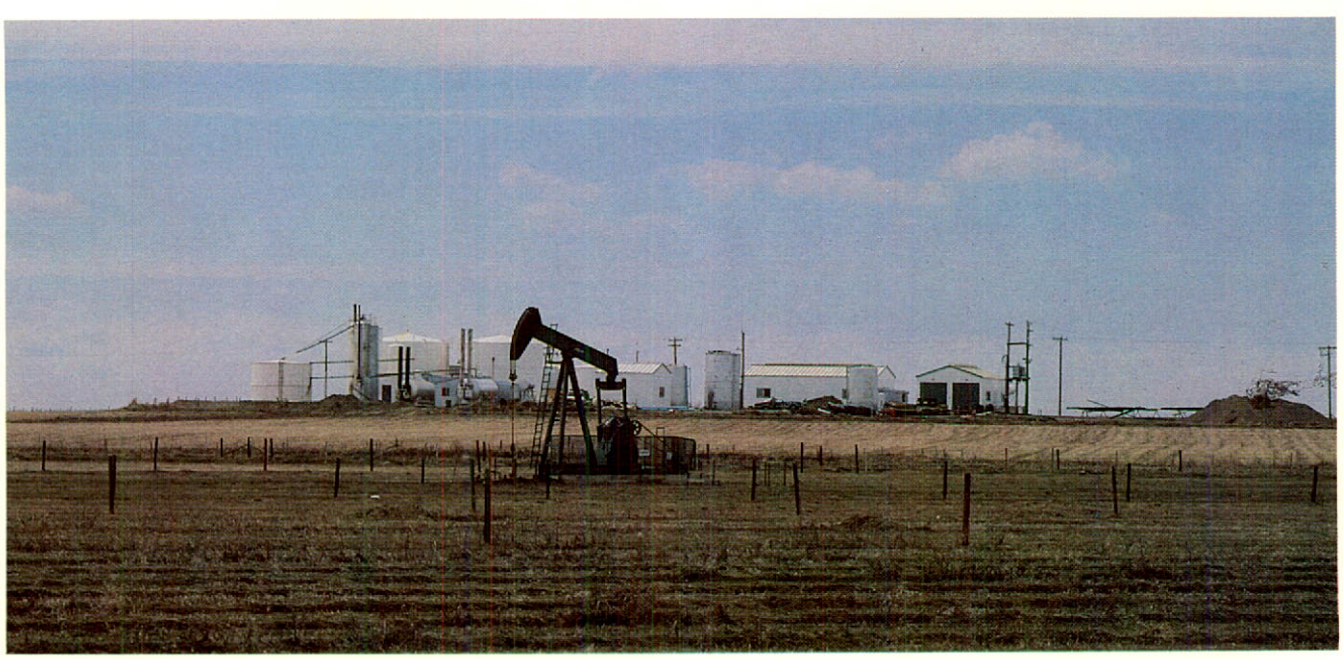
Conservation, recession and consumer resistance to high prices have taken their toll in the gas market.

By far the most significant factor in the decline in gas demand is that of price. A plentiful supply of oil in the world market has had the effect of making residual fuel oil competitive in many of our traditional gas markets in Canada and more notably in the United States. Very substantial industrial gas loads were switched to oil. Significant gas markets were also lost to coal at the level of the Canadian export price of $4.94/mcf (U.S.).

The April, 1983, pronouncement by the Federal Government that the export price is reduced to $4.40/mcf (U.S.) for certain minimum volumes, and that consideration is being given to a lesser incentive price for volumes above the minimum, is a step in the right direction. While such a level of pricing may not result in much increase in sales of our gas, it may help to preserve those markets that we still have.

We at Oakwood feel that the present marketing problem is one of short term. As we see the situation, there will be large demands for Canadian gas in the U.S.A. after a two or three year period. All reports emanating from the large gas buyers in the United States say that they expect significant declines in gas deliverability from their existing domestic supply commencing within the next two to three years.

While the growth in demand for Canadian natural gas during that period is not expected to show significant increases, we feel there is little doubt that the future is most promising and there will be a great demand for Canadian gas, provided it is priced competitively in the market place.



Curt W. Brown, Vice-President, Finance

We are pleased to report what we consider to be very favorable financial results for the year 1982. Despite the problems encountered by the Oil and Gas Industry with the National Energy Program (N.E.P.), the poor economic conditions in Canada and the temporary adverse marketing conditions for our Grand Forks production, we are able to report improved overall cash flow from operations (with Petroleum Incentives).

Cash Flow and Net Earnings

Cash flow from operations for the year 1982 was $19,627,000 ($30,788,000 with Petroleum Incentive Program credits — PIP's) or $4.06 per common share ($6.38 with PIP's) compared with $22,292,000 ($26,226,000 with PIP's) last year or $4.30 per common share ($5.05 with PIP's).

Consolidated net earnings applicable to common shares were $2,157,000 (after preferred dividends of $2,838,000) or $0.45 per common share, compared to $14,625,000 (after preferred dividends of $2,838,000) or $2.82 per common share last year.

Extraordinary items, which occur frequently within Oakwood as a result of Oakwood's policy of growth through acquisitions, continue to be a significant contributor to the company's earnings. For 1982, earnings from extraordinary items were $8,664,000 compared with $13,806,000 last year. The 1982 extraordinary items include a gain of $2,029,000 (after tax) on the sale of common shares of American Eagle ($1,905,000 gain was recorded in 1981 as a result of shares sold during 1981) and $6,635,000 gain from the recognition of tax deductions of subsidiary companies ($11,400,000 gain in 1981 from the recognition of tax deductions of subsidiary companies in 1981). As well, 1981 included $501,000 net gain on other corporate acquisitions and disposals.

Net Operating Revenue

Net operating revenue (after royalties) from the sale of oil and gas increased to $65,679,000 — an increase of 41% from $46,491,000 last year. Gross oil production declined 13% to 437,820 m^3 (502,075 m^3 last year). Gross gas production increased 39% to 242,149 10^3m^3 (174,319 10^3m^3 last year).

The oil and gas netback to the Oil and Gas Industry which was seriously curtailed by the N.E.P. was alleviated somewhat by the Alberta Government changes of April 13, 1982 and the Federal Government amendment on May 31, 1982. The April 13 changes, among other things, increased the Alberta Royalty Tax Credit to 75% (from 50%) of Crown Royalties to a maximum of $4,000,000 (from $2,000,000) for the period commencing September 1, 1981 through December 31, 1983. As well, the Alberta Government reduced the overall Crown oil and gas royalty rates by about 5 percentage points for the period April 1, 1982 through December 31, 1986. We estimate this change improved our 1982 cash flow and net earnings by about $5,700,000. On May 31, 1982 the Federal Government also relaxed some of the constraints of the N.E.P. by, among other things, increasing the wellhead price of oil effective July 1, 1982 for oil discovered between 1974 and 1980 to 75% of current world oil price. The Federal Government also reduced the Petroleum and Gas Revenue Tax by 1% from 12% to 11% (after resource allowance) and suspended the Incremental Oil Revenue Tax for the period June 1, 1982 to May 31, 1983. We estimate this change added about $6,000,000 to our 1982 cash flow and improved net earnings by about $3,600,000.

The temporary curtailment of oil production from our Grand Forks field caused by market constraints reduced production for the first half of 1982 by about 39% or $9,000,000 in gross revenue. We anticipate some minimal curtailment (annual 5-10%) in 1983.

Oil production before royalties for the year 1982 averaged 1200 m^3 per day at an average wellhead selling price of about $163.00 per m^3 compared to 1376 m^3 per day at an average selling price of about $112.00 per m^3 last year.

Gas production before royalties for the year 1982 averaged 663 10^3m^3 per day at an average wellhead selling price of about $90.00 per 10^3m^3 compared with 478 10^3m^3 per day at an average wellhead selling price of about $82.50 per 10^3m^3 the previous year.

Corporate Expenses

Corporate expenses, by and large, remained within normal growth patterns with the exception of interest expense which increased to $30,665,000 from $18,921,000 in 1981. The increase in the interest expense was caused by the acquisition of Quasar Petroleum Ltd. in December, 1981 which increased our debt by $78,310,000. With the decline in interest rates we anticipate that our 1983 interest expense will be approximately $8,000,000 less than 1982.

Capital Expenditures

During 1982, Oakwood and subsidiaries expended $34,776,000 on property, plant and equipment compared to $26,775,000 in 1981 as follows:

	Wells					
	Gross		Net		Amount	
	1982	1981	1982	1981	1982	1981
Western Canada						
Exploration drilling	**26**	25	**7.8**	6.0	**$ 2,475,000**	$ 2,901,000
Development drilling	**45**	62	**18.3**	28.6	**4,371,000**	6,559,000
Lease rentals and acquisitions	**—**	—	**—**	—	**960,000**	3,407,000
Equipment	**—**	—	**—**	—	**5,596,000**	7,162,000
Beaufort Sea	**1**	—	**0.1**	—	**9,881,000**	—
USA and Australia	**17**	14	**1.1**	.8	**7,412,000**	851,000
Other — net	**—**	—	**—**	—	**4,081,000**	5,895,000
	89	101	**27.3**	35.4	**34,776,000**	26,775,000
Petroleum Incentives Program credits					**(11,161,000)**	(3,934,000)
Net capital expenditures					**$ 23,615,000**	$22,841,000

In order to provide an opportunity to participate on a large scale in an exploration program to search for major potential oil and gas reserves, Oakwood entered into an agreement with Esso Resources Canada Limited in the Beaufort Sea — MacKenzie Delta region. The agreement dated May 28, 1982 required Oakwood to pay approximately 10% of the cost of a five year exploration program to earn approximately 5% working interest in 2 326 993 hectares (5,750,000 acres.) The estimated capital expenditures at the time of the Agreement totalled $600 million of which Oakwood will be required to pay $60 million subject to 80% PIP, leaving a net capital outlay to Oakwood of $12 million.

Asset Base

The total assets increased to $400,022,000 at December 31, 1982 compared to $369,858,000 a year earlier. Canadian oil and gas reserves and land values (as determined by independent petroleum engineers) at July 1, 1982 on a cumulative cash flow basis before tax were $2.1 billion ($618,749,000 discounted at 15%).

Long-Term Debt

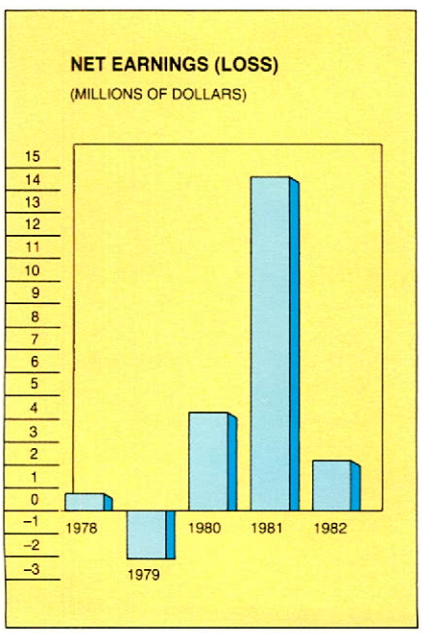
Long-term debt at December 31, 1982 was reduced by $11,892,000 to $254,061,000. In December, 1982 Oakwood improved its debt equity ratio (by the issue of $18,442,000 Series B preferred shares) to 76.5 debt to 23.5 equity — an improvement of 4.1 points. The Company intends to continue to improve its debt to equity ratio.

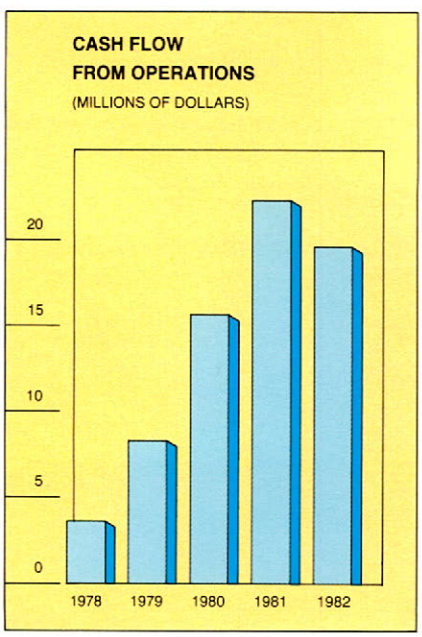
In April, 1983 Oakwood arranged by Letter of Intent to borrow an additional $20 million (U.S.) bearing interest at 13.75% repayable 1987 through 1996.

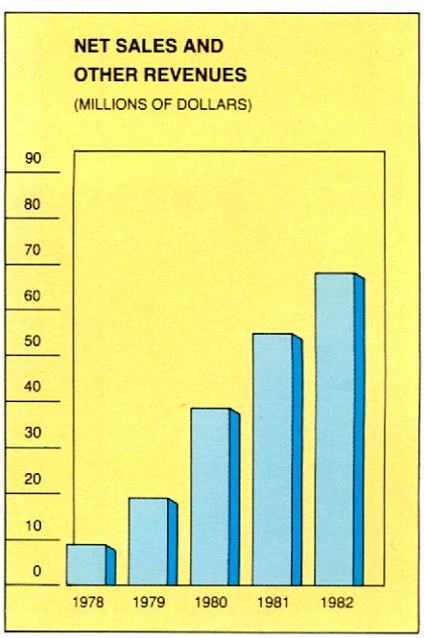
Capital Stock

During 1982 the Company purchased, through the facilities of The Toronto Stock Exchange, 333,700 common shares of Oakwood at a cost of $3,434,000.

On March 24, 1983 the shareholders approved the reclassification of Oakwood's common shares to one common share and one Class A non-voting share. The reclassification was considered necessary to provide greater flexibility in future equity financing opportunities.







CONSOLIDATED BALANCE SHEET
As At December 31, 1982

ASSETS

	1982	1981
CURRENT ASSETS		
Cash and term deposits (note 11)	**$ 27,408,000**	$ 7,820,000
Accounts receivable	**18,285,000**	11,439,000
Corporate taxes receivable	**—**	2,081,000
	45,693,000	21,340,000
LONG-TERM INVESTMENTS (note 2)	**81,382,000**	76,097,000
PROPERTY AND EQUIPMENT, at cost (note 3)	**317,207,000**	298,877,000
Accumulated depletion and depreciation	**49,571,000**	39,444,000
	267,636,000	259,433,000
OTHER ASSETS	**5,311,000**	12,988,000
	$400,022,000	$369,858,000

Approved by the Board

Brian S. Ekstrom, Director

K. W. Germond, Director

LIABILITIES

	1982	1981
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	**$ 25,018,000**	$ 12,664,000
Corporate taxes payable	**3,273,000**	—
Current maturities on long-term debt	**13,592,000**	2,410,000
	41,883,000	15,074,000
PREPAYMENTS AND ADVANCES UNDER GAS SALES CONTRACTS	**6,304,000**	4,240,000
LONG-TERM DEBT (note 4)	**254,061,000**	265,953,000
DEFERRED INCOME TAXES	**11,994,000**	13,660,000
MINORITY INTEREST IN SUBSIDIARY COMPANIES	**7,127,000**	6,829,000

SHAREHOLDERS' EQUITY

CAPITAL STOCK (note 5)		
Convertible preferred shares, Series A	**35,979,000**	35,996,000
Preferred shares, Series B	**18,442,000**	—
Common shares	**13,172,000**	13,928,000
CONTRIBUTED SURPLUS	**—**	768,000
RETAINED EARNINGS	**13,807,000**	13,410,000
	81,400,000	64,102,000
Less 165,000 Common shares issued and unallotted (note 5(d))	**2,747,000**	—
	78,653,000	64,102,000
	$400,022,000	$369,858,000

COMMITMENTS AND CONTINGENCY (note 11)

CONSOLIDATED STATEMENT OF EARNINGS
Year Ended December 31, 1982

	1982	1981
Revenue		
Sale of oil and gas	**$65,679,000**	$46,491,000
Interest and other	**2,426,000**	8,526,000
	68,105,000	55,017,000
Expenses		
Production	**8,698,000**	6,136,000
General and administrative	**6,077,000**	3,837,000
Interest on long-term debt (note 6)	**30,665,000**	18,921,000
Depletion and depreciation	**10,138,000**	7,673,000
	55,578,000	36,567,000
Earnings before corporate taxes and undernoted items	**12,527,000**	18,450,000
Corporate taxes (note 7)	**12,270,000**	14,693,000
Earnings before undernoted items	**257,000**	3,757,000
Share of loss of American Oakwood Energy Ltd.	**(3,926,000)**	(100,000)
Earnings (loss) before extraordinary items	**(3,669,000)**	3,657,000
Extraordinary items (note 8)	**8,664,000**	13,806,000
NET EARNINGS	**4,995,000**	17,463,000
Provision for dividends on preferred shares	**2,838,000**	2,838,000
NET EARNINGS APPLICABLE TO COMMON SHARES	**$ 2,157,000**	$14,625,000
NET EARNINGS (LOSS) PER COMMON SHARE		
Earnings (loss) before extraordinary items	**$(1.35)**	$ .16
Net earnings	**$ .45**	$2.82

CONSOLIDATED STATEMENT OF RETAINED EARNINGS (DEFICIT)
Year Ended December 31, 1982

	1982	1981
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR	**$13,410,000**	$(1,199,000)
Net earnings	**4,995,000**	17,463,000
	18,405,000	16,264,000
Dividends on convertible preferred shares, Series A	**2,822,000**	2,840,000
Re-purchase of common shares	**1,776,000**	—
Dividend of shares of American Oakwood Energy Ltd.	**—**	14,000
	4,598,000	2,854,000
RETAINED EARNINGS AT END OF YEAR	**$13,807,000**	$13,410,000

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
Year Ended December 31, 1982

	1982	1981
WORKING CAPITAL DERIVED FROM		
Operations	**$19,627,000**	$22,292,000
Petroleum Incentives Program credits	**11,161,000**	3,934,000
	30,788,000	26,226,000
Prepayments under gas sales contracts	**2,064,000**	—
Increase in long-term debt	**—**	83,714,000
Issue of preferred shares, Series B	**17,834,000**	—
Issue of common shares	**117,000**	2,994,000
Repayment of notes receivable from American Oakwood Energy Ltd.	**—**	6,526,000
Other	**6,695,000**	—
	57,498,000	119,460,000
WORKING CAPITAL APPLIED TO		
Acquisition of subsidiary companies	**1,198,000**	50,500,000
Long-term investments	**10,601,000**	49,846,000
Additions to property and equipment	**34,776,000**	26,775,000
Reduction of long-term debt	**7,123,000**	—
Dividends on convertible preferred shares, Series A	**2,822,000**	2,840,000
Re-purchase of common shares	**3,434,000**	—
Other	**—**	4,313,000
	59,954,000	134,274,000
DECREASE IN WORKING CAPITAL	**(2,456,000)**	(14,814,000)
WORKING CAPITAL AT BEGINNING OF YEAR	**6,266,000**	21,080,000
WORKING CAPITAL AT END OF YEAR	**$ 3,810,000**	$ 6,266,000

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS
Year Ended December 31, 1982

	1982	1981
BALANCE AT BEGINNING OF YEAR	**$768,000**	$768,000
Re-purchase of common shares	**768,000**	—
BALANCE AT END OF YEAR	**$ —**	$768,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year Ended December 31, 1982

1. ACCOUNTING POLICIES

The financial statements of Oakwood have been prepared by management in accordance with generally accepted accounting principles in Canada and in accordance with international accounting standards applied on a basis consistent with the preceding year. Because a precise determination of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of financial statements necessarily involves the use of estimates and approximations which have been made using careful judgement. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Consolidation

The consolidated financial statements include the accounts of Oakwood Petroleums Ltd., its wholly owned subsidiary companies, and its 63.2% interest in Oakwood International Petroleum N.L. and its wholly owned subsidiary company Oakwood Petroleum Corporation.

Acquisitions of subsidiary companies are accounted for by the purchase method, and accordingly, only earnings or losses from the date of acquisition are included in the consolidated statement of earnings.

Substantially all the excess consideration paid for the shares of subsidiary companies over the book value of their net assets at date of acquisition is included in property and equipment in the consolidated balance sheet and is amortized on the same basis as such assets.

(b) Long-Term Investments

Oakwood's investment in American Oakwood Energy Ltd. is recorded on the equity basis. The investment includes Oakwood's share of undistributed earnings since acquisition and the consolidated statement of earnings includes Oakwood's share of earnings. The excess of the consideration paid for the shares of American Oakwood over the book value of its net assets at date of acquisition has been assigned to property and equipment and is amortized on the same basis as such assets.

Oakwood's purchase of certain long-term investments is for the purpose of evaluating the possible acquisition of control. The cost includes capitalized interest, reduced by income derived from the securities, during the determination period.

(c) Petroleum and Natural Gas Operations

Oakwood follows the full cost method of accounting for petroleum and natural gas operations, whereby all costs of exploring for and developing petroleum and natural gas reserves are capitalized. Costs include land acquisition costs, geological and geophysical costs, carrying charges on non-producing property, costs of drilling both productive and non-productive wells, and related overhead expenses. Such costs, net of proceeds from minor disposals of property, plus estimated future capital costs associated with proved reserves, are accumulated and depleted on a country by country basis (except for frontier areas) using the revenue method based upon estimated proved reserves as determined by Oakwood's and independent consulting engineers.

Costs incurred in frontier areas in which exploration and development activities are underway, together with related interest costs, are capitalized until the economic viability can be determined. If economically successful, costs are depleted using the revenue method; if unsuccessful, costs are charged to earnings when the area is determined uneconomic.

Gains or losses are recognized upon the sale or disposition of properties when the petroleum and natural gas reserves of those properties are significant in relation to Oakwood's total reserves in the particular cost centre.

Substantially all of Oakwood's petroleum and natural gas exploration, development and production activities are conducted jointly with others. These consolidated financial statements reflect only Oakwood's proportionate interest in such activities.

(d) Depreciation

Depreciation of petroleum and natural gas production equipment and related facilities is provided using the revenue method based upon estimated proved reserves.

Depreciation of other property and equipment is provided using a straight-line basis over the estimated life of each asset at annual rates varying from 10% to 20%.

(e) Foreign Currencies

The accounts of Oakwood which are denominated in foreign currencies and those of its foreign subsidiary companies are translated into Canadian dollars on the following basis:

(i) current assets and liabilities, at the rate of exchange as at the balance sheet date;

(ii) all other assets, liabilities, and depletion and depreciation, at rates prevailing when the assets were acquired or the liabilities incurred;

(iii) revenue and expenses, except depletion and depreciation, at the average rate in effect during the period.

Unrealized gains or losses resulting from such translation practices are capitalized as part of property and equipment and are amortized in accordance with policies outlined in note 1(c) and (d). Realized gains or losses are reflected in earnings.

(f) Deferred Charges

Financing charges related to long-term debt are included in other assets in the consolidated balance sheet and are amortized on a straight-line basis over the term of the related debt.

2. LONG-TERM INVESTMENTS

	1982	1981
American Oakwood Energy Ltd.		
3,638,315 Shares (1981, 3,138,315)	**$ 6,750,000**	$ 7,453,000
10% Convertible demand note receivable	**5,000,000**	5,292,000
11% Note receivable	**7,500,000**	7,981,000
Demand notes receivable, interest at Canadian bank prime rate plus ¼% (1982, $5,836,000 U.S.; 1981, $7,346,000 U.S.)	**7,191,000**	8,828,000
	26,441,000	29,554,000
Alberta Natural Gas Company Ltd (note 5(c)(ii)) 720,000 Common shares (quoted market value 1982, $16,200,000; 1981, $16,600,000)	**21,730,000**	16,919,000
Conventures Limited 2,041,186 Common shares (quoted market value 1982, $10,461,000; 1981, $22,453,000)	**33,211,000**	28,205,000
Other	**—**	1,419,000
	$81,382,000	$76,097,000

Although Oakwood acquired an additional 500,000 common shares of American Oakwood in 1982 in connection with a 1981 agreement and holds 65.7% of the issued common shares, Oakwood intends to reduce its ownership of American Oakwood below 50%. Accordingly, the accounts of American Oakwood are not consolidated, but are recorded on the equity basis as indicated in note 1(b).

Subsequent to December 31, 1982, Oakwood and American Oakwood agreed to restructure the inter-company debt whereby American Oakwood is not required to pay accrued interest on the debt in the amount of $9,280,000, of which the 1982 portion of $2,999,000 has been excluded from interest and other revenue and the prior years' portion of $6,281,000, net of income taxes of $3,065,000, has been included in share of loss of American Oakwood Energy Ltd. in the consolidated statement of earnings.

Oakwood has indicated that it will not require the repayment of the demand notes receivable until the completion by American Oakwood of equity and/or alternative debt financing in amounts sufficient to facilitate full repayment of the notes receivable and to sustain and develop American Oakwood's operations to ensure the recovery of Oakwood's investment.

3. PROPERTY AND EQUIPMENT

	1982			1981
	Cost	Accumulated Depletion and Depreciation	Net	Net
Petroleum and natural gas leases and rights including exploration, development and equipment thereon				
Canada	**$292,873,000**	**$45,181,000**	**$247,692,000**	$246,164,000
United States	**12,863,000**	**3,025,000**	**9,838,000**	8,222,000
Other	**5,845,000**	**—**	**5,845,000**	846,000
Other property and equipment	**5,626,000**	**1,365,000**	**4,261,000**	4,201,000
	$317,207,000	**$49,571,000**	**$267,636,000**	$259,433,000

4. LONG-TERM DEBT

	Interest Rate	Maturity Date	Payment Terms	1982	1981
Oakwood Petroleums Ltd.					
Series A Senior Secured Notes	11⅞%	June 15, 1995	$770,000 June 15, 1984, $1,565,000 semi-annually thereafter, and $1,365,000 June 15, 1995	**$ 35,000,000**	$ 35,000,000
Series B Senior Secured Notes ($55,000,000 U.S.)	10.9%	June 15, 1995	$1,230,000 U.S. June 15, 1984, $2,430,000 U.S. semi-annually thereafter, and $2,740,000 U.S. June 15, 1995	**64,075,000**	64,075,000
Demand investment bank loan	Prime + ¼%	January 31, 1983 (see below)		**18,900,000**	28,545,000
Demand production bank loans	Prime + ¼%-1%			**91,300,000**	76,300,000
Promissory notes	Prime (maximum 23.5%; minimum 17.5%)	September 5, 1983 (see below)	Payable on or before maturity	**13,536,000**	13,536,000
Income debenture	½ Prime + 1¼%	October 1, 1986	$542,000 quarterly	**8,667,000**	10,833,000
Quasar Petroleum Ltd.					
Demand production bank loan	Prime + ¼%	November 1990	$180,000 monthly to November 1985, $342,000 monthly thereafter	**26,720,000**	25,400,000
Note payable to American Quasar Petroleum Co.		January 1, 1983	On maturity	**9,191,000**	14,346,000
Other				**264,000**	328,000
				267,653,000	268,363,000
Less current maturities included in current liabilities				**13,592,000**	2,410,000
				$254,061,000	$265,953,000

The long-term debt is secured by certain petroleum and natural gas properties. The bank loans are also secured by accounts receivable and common shares of Conventures Limited.

The demand investment bank loan was obtained to finance the acquisition of certain long-term investments. Proceeds from any sales of such investments must be applied to this bank loan. The maturity of the loan was extended in anticipation of refinancing the loan, if necessary, under an enlarged production loan line of credit. The demand production bank loans are repayable out of future production proceeds and are not expected to require the use of existing working capital. As long as estimated future production proceeds continue to exceed Oakwood's production loan lines of credit, determined by the bank in accordance with its usual production loan parameters, there are no repayment requirements other than for the loan to Quasar Petroleum Ltd. Accordingly, no portion of the bank loans, except for the loan to Quasar, has been included in current liabilities. Current maturities on long-term debt do not include promissory notes of $13,536,000 which are payable September 5, 1983, as Oakwood intends to refinance such debt by alternative long-term debt. Reference is made to note 12(c).

Estimated principal payments on long-term debt in the five years subsequent to 1982 (excluding principal payments on production bank loans to Oakwood Petroleums Ltd.) are:

1983 — $27,128,000; 1984 — $11,249,000; 1985 — $13,696,000; 1986 — $15,376,000; and 1987 — $13,209,000.

If the Series B Senior Secured Notes which are repayable in U.S. funds had been translated at the rate of exchange as at December 31, 1982, the additional long-term debt liability would have been $3,542,000.

5. CAPITAL STOCK

(a) Authorized

At December 31, 1982, the authorized share capital of Oakwood consists of an unlimited number of common shares without nominal or par value and an unlimited number of preferred shares without nominal or par value, issuable in series.

Reference is made to note 12(b).

(b) Issued

Changes in the issued capital stock for the years ended December 31, 1982 and 1981 are as follows:

	Convertible Preferred Shares, Series A		Preferred Shares, Series B	
	Number of Shares	Carrying Value	Number of Shares	Carrying Value
Balance December 31, 1980	1,500,000	$36,338,000		
Converted to common shares	(14,110)	(342,000)		
Balance December 31, 1981	1,485,890	35,996,000		
Issued for $19,080,000 cash, less expenses of issue, net of income tax reduction of $608,000			**720,000**	**$18,442,000**
Converted to common shares	**(700)**	**(17,000)**	**—**	**—**
Balance December 31, 1982	**1,485,190**	**$35,979,000**	**720,000**	**$18,442,000**

	Common Shares	
	Number of Shares	Carrying Value
Balance December 31, 1980	5,007,377	$10,592,000
Issued pursuant to share purchase plan (see note 5(d))	165,000	2,747,000
Issued for cash pursuant to share option agreements	50,400	247,000
Issued on conversion of preferred shares	15,521	342,000
	230,921	3,336,000
Balance December 31, 1981	5,238,298	13,928,000
Issued for cash pursuant to share option agreements	**12,500**	**117,000**
Issued on conversion of preferred shares	**770**	**17,000**
Re-purchased and cancelled (see note 5(e))	**(333,700)**	**(890,000)**
	(320,430)	**(756,000)**
Balance December 31, 1982	**4,917,868**	**$13,172,000**

Reference is made to note 12(a).

(c) Preferred Shares

The following summarizes the material characteristics of the issued preferred shares:

(i) $1.90 Cumulative Redeemable Convertible First Preferred Shares, Series A

The convertible preferred shares, Series A were issued at $25.00 and bear dividends of $1.90 per annum. Each share is convertible into 1.1 common shares of Oakwood on or prior to September 1, 1984 and thereafter into one common share on or prior to September 1, 1988. The shares are redeemable on or before September 1, 1985 at $26.90 if the average trading price (for a specified period of time) of Oakwood's common shares on The Toronto Stock Exchange is not less than 125% of the conversion price, and are redeemable after September 1, 1985 at $25.75 declining $0.25 per year to $25.00 after September 1, 1988. Upon conversion or redemption, the holder is also entitled to receive .22 of an American Oakwood Energy Ltd. common share for each share so converted or redeemed. Oakwood is obliged to purchase, in each calendar quarter commencing January 1, 1989, 1% of the total number of shares outstanding on a specified date at prices not exceeding $25.00 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

(ii) $2.78 Cumulative Redeemable Retractable Preferred Shares, Series B

The preferred shares, Series B were issued in December 1982 at $26.50 and bear dividends of $2.78 per annum. The holder of the shares will have the option of requiring Oakwood to redeem all or any of his shares on April 1, 1988 at $26.50. The shares are redeemable after March 31, 1988 at $27.50, declining $0.25 per year to $26.50 after March 31, 1992. Oakwood is obliged to purchase, in each calendar quarter commencing January 1, 1984, 7,200 shares at prices not exceeding $26.50 per share plus costs of purchase, such obligation to carry over to succeeding calendar quarters in the same calendar year.

Each holder of the shares on April 1, 1983 will be entitled to receive for each share held one warrant to purchase one of the 720,000 common shares of Alberta Natural Gas Company Ltd owned by Oakwood. The Alberta Natural shares are being held in trust pending exercise of the warrants. Upon exercise of the warrants, Oakwood will either receive $26.50 cash or will receive and redeem one preferred share, Series B, as consideration for each share of Alberta Natural. On exercise of the warrants Oakwood will be subject to a loss of approximately $3.70 per share of Alberta Natural.

(d) Share Purchase Plan

In 1981, a share purchase plan was established under which key executive personnel were granted loans of $2,747,000 by Oakwood to acquire 165,000 common shares of Oakwood. In January 1982, the participating executives elected to withdraw from the share purchase plan and the related notes were cancelled. The 165,000 shares are currently held in escrow and are unallotted.

(e) Re-purchase of Common Shares

In February 1982, Oakwood entered into a program of purchasing through the facilities of The Toronto Stock Exchange issued and outstanding common shares of Oakwood during the twelve months ending February 5, 1983. To December 31, 1982, Oakwood has acquired and cancelled 333,700 common shares for consideration of $3,434,000.

(f) Common Shares Reserved

As at December 31, 1982, 1,985,209 common shares are reserved for issue, including 1,633,709 shares to be issued on conversion of the outstanding convertible preferred shares, Series A and 351,500 shares to be issued on exercise of outstanding share options granted to directors, officers and employees. The share options have exercise prices ranging from $6.30 to $12.38 and expiry dates ranging from December 31, 1986 to March 31, 1987.

(g) Dividend Restriction

Payment of dividends on common shares is subject to approval by the holders of certain of Oakwood's long-term debt.

6. INTEREST ON LONG-TERM DEBT

In accordance with Oakwood's accounting policies, interest capitalized on long-term investments and frontier properties is $7,316,000 in 1982 and $5,127,000 in 1981.

7. CORPORATE TAXES

	1982	1981
Current income taxes	**$ (437,000)**	$ 469,000
Deferred income taxes	**8,044,000**	10,797,000
	7,607,000	11,266,000
Petroleum and Gas Revenue Tax	**8,466,000**	4,767,000
Incremental Oil Revenue Tax	**929,000**	—
Alberta Royalty Tax Credit	**(4,732,000)**	(1,340,000)
	$12,270,000	$14,693,000

The effective income tax rate for the years ended December 31, 1982 and 1981 varies from the rate that would be computed by applying the statutory rates as follows:

	1982		1981	
	Amount	**% of Pre-Tax Earnings**	**Amount**	**% of Pre-Tax Earnings**
Computed income tax expense	**$ 6,114,000**	**48.8**	$ 9,047,000	49.3
Increase (decrease) in income taxes resulting from:				
Non-deductible provincial royalties and rentals, net of provincial rebates	**11,989,000**	**95.7**	10,048,000	54.8
Non-taxable Incremental Oil Revenue	**(1,713,000)**	**(13.7)**	—	—
Income debenture interest	**430,000**	**3.4**	926,000	5.0
Non-deductible amortization of excess consideration paid for shares of subsidiary companies	**1,674,000**	**13.4**	—	—
Federal resource allowance	**(9,063,000)**	**(72.3)**	(7,118,000)	(38.8)
Depletion allowance	**(1,841,000)**	**(14.7)**	(1,033,000)	(5.6)
Other	**17,000**	**.1**	(604,000)	(3.3)
Income tax expense	**$ 7,607,000**	**60.7**	$11,266,000	61.4

8. EXTRAORDINARY ITEMS

	1982	**1981**
Income tax reduction on recognition of tax deductions of acquired subsidiary companies	**$6,635,000**	$11,400,000
Gain on sale of shares of American Eagle Petroleums Ltd., net of income taxes (1982, $536,000; 1981, $473,000) related thereto	**2,029,000**	1,905,000
Adjustment to consolidated earnings on disposal of a subsidiary company	—	841,000
Loss on disposal of marketable securities, net of income tax recovery of $196,000 related thereto	—	(340,000)
	$8,664,000	$13,806,000

9. BUSINESS SEGMENTS

Oakwood is engaged in one industry segment, oil and gas exploration, development and production. Geographic segment information for the years ended December 31, 1982 and 1981 is as follows:

	1982			
	Canada	United States	Other	Consolidated
Gross revenue				
Sale of oil and gas	$ 63,845,000	$ 1,834,000	$ —	$ 65,679,000
Operating profit	$ 46,185,000	$ 658,000	$ —	$ 46,843,000
Interest and other revenue				2,426,000
General and administrative expense				(6,077,000)
Interest expense				(30,665,000)
Share of loss of American Oakwood Energy Ltd.				(3,926,000)
Extraordinary items				8,664,000
Corporate taxes				(12,270,000)
Net earnings				$ 4,995,000
Identifiable assets	$295,338,000	$11,326,000	$11,976,000	$318,640,000
Long-term investments				81,382,000
Total assets				$400,022,000

	1981			
	Canada	United States	Other	Consolidated
Gross revenue				
Sale of oil and gas	$ 45,100,000	$ 1,391,000	$ —	$ 46,491,000
Operating profit	$ 32,508,000	$ 363,000	$ (189,000)	$ 32,682,000
Interest and other revenue				8,526,000
General and administrative expense				(3,837,000)
Interest expense				(18,921,000)
Share of loss of American Oakwood Energy Ltd.				(100,000)
Extraordinary items				13,806,000
Corporate taxes				(14,693,000)
Net earnings				$ 17,463,000
Identifiable assets	$274,773,000	$ 9,546,000	$ 9,442,000	$293,761,000
Long-term investments				76,097,000
Total assets				$369,858,000

10. RELATED PARTY TRANSACTIONS

Certain employees of Oakwood are allowed to participate in Oakwood's acquisition of petroleum and natural gas properties on the same basis as if a third party had participated. As well, certain employees of Oakwood have the right to participate in exploration projects through a 5% net profits interest in the projects after payout.

Reference is made to notes 2, 5(d) and 12(a).

11. COMMITMENTS AND CONTINGENCY

Oakwood has entered into a five year exploration agreement with Esso Resources Canada Limited in the Beaufort Sea-Mackenzie Delta region for which the future expenditures are currently estimated at $12,000,000 after deduction of Petroleum Incentives Program credits.

Cash and term deposits include $6,021,000 held in trust for capital expenditures in the Lancaster Sound region of the Canadian Arctic and $5,436,000 for capital expenditures in Australia. These funds are anticipated to be expended in 1983.

Oakwood is contingently liable under a corporate guarantee of a bank loan of $3,000,000 U.S. to American Oakwood Energy Ltd.

12. SUBSEQUENT EVENTS

(a) Quintus Leaseholds Limited

In March 1983, Oakwood acquired all the outstanding common shares of Quintus Leaseholds Limited from a director and senior officer of Oakwood in exchange for 114,637 common shares of Oakwood.

(b) Capital Stock

In March 1983, the authorized share capital was changed to: an unlimited number of common shares; an unlimited number of Class A non-voting shares; and, an unlimited number of preferred shares issuable in series.

The previously issued and outstanding 5,032,505 common shares were reclassified and changed into 5,032,505 common shares and 5,032,505 Class A non-voting shares. Holders of the reclassified common shares have the right to convert such shares into an equivalent number of Class A non-voting shares at any time. The Class A non-voting shares are entitled to a non-cumulative preferential dividend of $.10 per share per annum, if as and when declared by the directors; thereafter in any year, should any dividends be declared on the common shares, dividends of equal amount must be declared on the Class A non-voting shares.

(c) Long-Term Debt

In April 1983, Oakwood arranged by letter of intent to borrow $20,000,000 U.S. bearing interest at 13.75%, repayable 1987 through 1996.

AUDITORS' REPORT

To the Shareholders of
Oakwood Petroleums Ltd.

We have examined the consolidated balance sheet of Oakwood Petroleums Ltd. as at December 31, 1982 and the consolidated statements of earnings, contributed surplus, retained earnings (deficit) and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1982 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Canada
April 8, 1983

Thorne Riddell
Chartered Accountants

DIRECTORS

DALLAS E. HAWKINS II, Calgary, Alberta
Chairman of the Board of the Company

* BRIAN S. EKSTROM, Calgary, Alberta
President of the Company
President of Brian Ekstrom Management Ltd.

KENNETH W. GERMOND, Calgary, Alberta
Executive Vice-President of the Company

* R. ROSS HAMILTON, Calgary, Alberta
President of Scoteire Exploration Ltd.

BRIAN G. McCOMBE, Calgary, Alberta
Partner, McCombe & Company

* EDWARD G. McMULLAN, Calgary, Alberta
President of E. G. McMullan Ltd.

GEORGE W. OUGHTRED, Calgary, Alberta
Chairman of the Board of Commercial Oil and Gas Ltd.

* audit committee

OFFICERS

DALLAS E. HAWKINS II
Chairman of the Board

BRIAN S. EKSTROM
President

KENNETH W. GERMOND
Executive Vice-President

D. NOLAN BLADES
Vice-President,
Production and Operations

ANDY J. BLASHYN
Vice-President, Exploration

A. NORMAN BOYSE
Vice-President,
Gas Marketing and Special Projects

CURT W. BROWN
Vice-President, Finance

BRIAN G. McCOMBE
Secretary

SENIOR PERSONNEL

KENNETH W. CHERYBA
Operations Manager

WAYNE R. COOPER
Office Manager

KENNETH A. MORRISON
Land Manager

JOHN M. PARTRIDGE
Controller

JACK W. SENAKOVICZ
Information
Systems Manager

ROBERT M. STUART
Geophysical Manager

HARRY G. YOUNG
Geological Manager

HEAD OFFICE

#1800, 311 Sixth Avenue S.W.
Calgary, Alberta T2P 3H2

SUBSIDIARY COMPANIES

BAYVIEW OIL & GAS LTD.
FLAMINGO OILS LIMITED
HURON RESOURCES MANAGEMENT LTD.
OAKWOOD PETROLEUMS (ESPANA), S.A.
OAKWOOD PETROLEUMS (U.S.A.) INC.
QUASAR PETROLEUM LTD.

OAKWOOD INTERNATIONAL
PETROLEUM N.L.
OAKWOOD PETROLEUM
CORPORATION
OAKWOOD RESOURCES (U.K.)
LIMITED

AMERICAN OAKWOOD ENERGY LTD.
OAKWOOD RESOURCES INC.

SHARES LISTED

The Toronto Stock Exchange
The Alberta Stock Exchange
The Montreal Stock Exchange

BANKERS

Bank of Montreal
Calgary, Alberta

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois and Calgary, Alberta

The Mercantile Bank of Canada
Calgary, Alberta

AUDITORS

Thorne Riddell, Calgary, Alberta

REGISTRAR

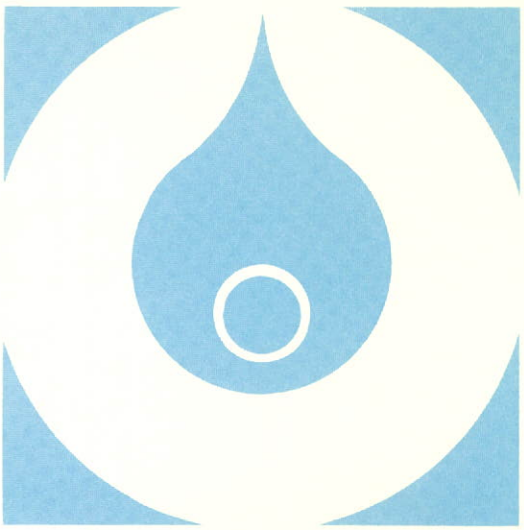
The Canada Trust Company, Calgary, Alberta

TRANSFER AGENTS

The Canada Trust Company
Calgary, Alberta and Toronto, Ontario

Bank of Bermuda Limited, Hamilton, Bermuda

Notice of change of address should be sent to the Transfer Agent.



Oakwood Petroleums Ltd. employee long service award pin.

OAKWOOD PETROLEUMS LTD.

Annual Report 1982

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